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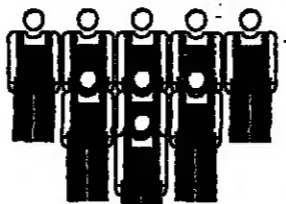
FINANCIAL TIMES

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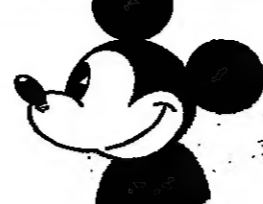
Face recognition
Seeing through
disguises

Technology, Page 10



Downsizing
It doesn't
work

Personal view, Page 12



LA's Getty Center
Competing with
Mickey Mouse

Page 4

Value creation
Spotting
the winners

Page 7

French state to sell further 6% of its Renault stake

The French state is to sell a further 6 per cent of Renault, taking its stake in Europe's third-largest carmaker to below 50 per cent. The symbolic and unexpected move confirms an acceleration in the country's privatisation programme. The announcement emphasised that the sale was only a first step preceding a wider placing, allowing the company "the same capacity for strategic manoeuvre" as its rivals. However, analysts suggested the decision to sell only 6 per cent represented a tacit admission that a wider placing would be difficult in the short term. Page 16; Peugeot signals expansion, Page 8; Stance toughened on Valeo, Page 17

Germans start 'warning' strikes: German postal workers stopped sorting letters and waste collectors left rubbish untouched in "warning" protests against a plan to freeze public sector wages. Unions threatened more action this week. Page 2

37,000 walk out in Norway: Nearly 37,000 Norwegian mechanical engineering workers went on their first strike for 73 years in a dispute that will affect subcontractors who produce components for European car manufacturers. Page 3

Spain to offer 10% of Repsol: The Spanish government is to sell its 10 per cent stake in Repsol, the energy, gas and chemicals group, at the earliest opportunity. Page 18; Repsol boosts profits, Page 16

Bulgaria shuts 67 companies: The Bulgarian government decided to close 67 loss-making companies with the loss of around 29,000 jobs, following a collapse of confidence in the country's currency. More jobs are to go when other state companies are restructured. Page 14; Biting the bullet, Page 2

Compensation for EU beef farmers urged: The European Union's agriculture commissioner Franz Fischler is to propose that the EU pay its farmers Ecu50m (\$60m) in compensation for the drop in beef prices since the start of the crisis over BSE - or mad cow disease. Page 8

Up to eight dead on Everest: Climbers from three expeditions were feared dead in treacherous weather on Everest. Four were from a New Zealand expedition struck by a blizzard. Three Indian climbers and one from a Taiwanese group are also believed to have died.

Japanese invest in Hollywood: Marubeni, the Japanese trading company, and Toho, the largest Japanese film producer which makes the Japanese series of *Godzilla* films, announced plans to invest up to ¥15bn (\$123.8m) in films produced by the Paramount movie studio. Page 15

Mayhew steps up pressure for ceasefire: Sir Patrick Mayhew (left), the UK Northern Ireland secretary, stepped up pressure on the IRA to restore its terrorism ceasefire as London considered a plan for a group of churchmen and lawyers to defuse sectarian tensions during this year's marching season in Ulster. Sir Patrick is also seen likely to announce that former US senator George Mitchell will chair potentially the most important negotiations on the province's future - those dealing with Dublin's role in Northern Ireland's affairs. Page 14

Japan's current account surplus shrunk by nearly a quarter in the fiscal year to March, but the rate of decline slowed significantly. Page 6

Smog fight moves to LA gardens: The fight against pollution in Los Angeles moved to the garden as retailers were offered "smog credits" for any petrol-powered lawnmower or leaf blower they scrapped. Page 14; Diesel limits exceeded, Page 8

50 feared drowned in Pakistan: About 50 people were feared drowned when a bus fell from a bridge into an irrigation canal in the southern Pakistani province of Sindh, the state radio reported.

Beijing talks seek to avert trade war: US assistant trade negotiator Steve Chan began talks aimed at averting a trade war over alleged Chinese abuses of intellectual copyright agreements. Page 5

T&N hit by asbestos appeals: T&N, the UK engineering group, admitted that attempts to cap its asbestos liabilities had suffered a setback in the US courts. Page 15

Selection of HK chief faces delay: A senior Chinese official suggested the selection of Hong Kong's first chief executive, the head of the post-colonial administration after next year's handover to China, could be delayed by several months. Page 6

STOCK MARKET INDICES
New York: Dow Jones Ind. Av. 5,536.14 (+12.0)
NASDAQ Composite 1,213.01 (+10.25)
Europe and Far East:
CAC40 2,100.05 (+13.95)
DAX 1,285.17 (+27.38)
FTSE 100 2,798.2 (-15.2)
Nikkei 21,171.82 (-248.3)

US LUNCHTIME RATES
Federal Funds 5.4%
3-mth Treas. Bill 5.125%
Long Bond 8.0%
Yield 6.91%

OTHER RATES
UK 3-mth Interbank 6.1% (annual)
10 yr Gilt 8.1% (86.5)
France 10 yr OAT 106.49 (105.65)
Germany 10 yr Bund 98.3 (98.55)
Japan 10 yr JGB 97.3931 (97.3731)

NORTH SEA OIL (Averages)
Brent Blend \$19.42 (19.23)
Dutch Sea \$19.42 (19.23)
UK North Sea \$19.42 (19.23)

OTHER CURRENCIES
Aussie \$1.5475 (1.5475)
Belgian 36.3636 (36.3636)
Bulgaria 1.9363 (1.9363)
Czech 20.361 (20.361)
Danish 6.56 (6.56)
Euro 1.6363 (1.6363)
Hong Kong 7.75 (7.75)
Italian 1.36 (1.36)
Japanese 136.00 (136.00)
Korean 1,000.00 (1,000.00)
Lira 1,936.36 (1,936.36)
New Zealand 2.00 (2.00)
Norwegian 4.76 (4.76)
Polish 4.00 (4.00)
Portuguese 200.48 (200.48)
Spanish 166.64 (166.64)
Swedish 8.46 (8.46)
Swiss 1.50 (1.50)
Taiwan 35.00 (35.00)
Thai 50.00 (50.00)
Turkish 1.50 (1.50)
US Dollar 1.00 (1.00)
Yen 140.00 (140.00)

Missile merger will create Europe's largest guided weapons company

Matra and BAe agree £1bn joint arms venture

By David Buchan in Paris and Bernard Gray in London

British Aerospace and Matra, the French defence group, yesterday agreed to create a £1bn (\$1.52bn) joint venture which will be Europe's largest guided weapons company.

At the same time Mr Jean-Luc Lagardère, chairman of Matra's parent company, said BAe would join Lagardère group in its bid to buy the Thomson-CSF defence electronics business, due to be privatised by the French government later this year.

Lagardère also hinted that other companies, including General Electric Company of the UK and Daimler-Benz of Germany, were ready to join it in bidding for Thomson-CSF.

In a separate move yesterday, the French government unveiled a six-year defence programme designed to scrap conscription and give France smaller but fully professional armed forces.

The programme will involve expenditure of FF¥516bn (\$100.38bn) on defence equipment in 1997-2002, much less than proposed in the previous multi-year plan, and will result in cuts

French cabinet approves defence cuts Page 2
Lex Page 14

or delays in some projects. Lagardère announced the conclusion of more than three years of negotiations to create a new Franco-British company to be called Matra BAe Dynamics.

With 6,000 employees and a £1bn turnover, the company will have a British chairman - Mr John Weston, the current head of BAe Dynamics - and a French chief executive.

BAe is to pay Lagardère between £25m and £110m to compensate the French company for its smaller order book. Each company will have a 50 per cent shareholding in the new venture.

Lagardère said BAe had agreed to join its consortium to bid for Thomson-CSF, the defence electronics arm of the Thomson group.

Mr Noel Forgeard, head of Matra Defence, went further at a Paris press conference to claim that Lord Weinstock of GEC had indicated he was ready "financially and industrially" to join in the Matra bid for Thomson.



French defence minister Charles Millon talks to the press after the French cabinet approved president Jacques Chirac's plan to create smaller, fully professional armed forces by 2002

Mr Forgeard also flourished a public statement from Mr Jürgen Schrempp, the head of Daimler-Benz and Dr Manfred Bischoff, the head of its aerospace subsidiary, Dasa. The German industrialists said they wanted Dasa to "play an active role... in the restructuring of the European aerospace and defence industry" and that "the talks between Thomson and the Lagardère group are regarded by us as most significant".

Both GEC and Daimler-Benz held just under 3 per cent in Thomson's loss-making television operation Thomson Multimedia off the government's hands in a purely French deal. Mr Forgeard yesterday said such "a French solution" would mean nothing if Alcatel were to just re-sell Multimedia after privatisation.

Lagardère insisted last year in its missile negotiations with BAe that the joint group must have the UK contract for a new cruise missile for a dowry, if the marriage was to go through. But the UK defence ministry is not due to award this contract until July.

Lagardère, though they also have ties with Alcatel, the French industrial group which is Lagardère's main rival for Thomson.

However, Daimler-Benz officials last night denied any knowledge of the letter, and GEC is thought to be prepared to back either Alcatel or Lagardère in its bid.

The French government has set this week as the deadline for "declarations of intention" from potential bidders for Thomson.

Lagardère fears Alcatel may beat it by promising to take Thomson's loss-making television operation Thomson Multimedia off the government's hands in a purely French deal.

Mr Forgeard also flourished a public statement from Mr Jürgen Schrempp, the head of Daimler-Benz and Dr Manfred Bischoff, the head of its aerospace subsidiary, Dasa. The German industrialists said they wanted Dasa to "play an active role... in the restructuring of the European aerospace and defence industry" and that "the talks between Thomson and the Lagardère group are regarded by us as most significant".

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Ministers back plan for Airbus restructuring

European aircraft consortium to become single corporate entity and broaden its product range

By Frederick Stüdemann in Berlin

Ministers from Germany, France, Spain and the UK yesterday approved a controversial plan to turn Airbus Industrie, the European aircraft consortium, into a single corporate entity.

Mr Norbert Lammert, state secretary in the German economics ministry, said the proposed change to the corporate structure "must take place as quickly as possible". However, he said the final form of the company was still to be resolved.

Airbus now shares out work proportionally among its four shareholders - Daimler-Benz Aerospace (Dasa) of Germany, Aérospatiale of France, Casa of Spain and British Aerospace. This arrangement has led to the

company being less cost efficient than Boeing of the US.

The decision, announced at an international air show in Berlin, clears the way for Airbus to become more competitive and broaden its range, officials said. The UK has been the strongest advocate of turning Airbus, the world's second largest aircraft maker, into a limited company.

Mr Tim Eggar, the British industry minister, said: "There is a common recognition of the need to reduce the cost base for the company." A single company, he said, would be able to raise debt and, possibly, equity.

Mr Lammert, who chaired yesterday's meeting, said a restructuring would enable Airbus to expand its product range, most notably into the area of so-called super-jumbos capable of carrying more than 800 people. Airbus is studying plans to build a 550-seat aircraft, the A3XX, to challenge Boeing's dominance of the large aircraft market.

It is now up to the companies involved to produce plans for a restructuring, the ministers said. Such a decision is expected next month when an Airbus Industrie committee headed by Mr Edzard Reuter, former chairman of Daimler-Benz and head of the Airbus supervisory committee,

publishes his report on the possible restructuring of the company.

None of the ministers would say what level of subsidies such a future integrated company might receive. "We are now awaiting a response from Airbus Industrie. They will need to come forward

rapidly. The governments will then look at their proposals in detail," Mr Eggar said.

In the past such a restructuring had been opposed by Aérospatiale. But yesterday Mr Bernhard Pons, the French transport minister, said France was now committed to a restructuring. "I admit that Aérospatiale was initially hesitant about restructuring, but now it is firmly convinced," he said.

He added that the finances of the IIPA would be transformed by the decision to grant audit registration status as "people have been sitting on the fence" before paying subscriptions.

He said that as a result of the decision the IIPA's finances would improve by more than £100,000.

Mr Dennehy said the IIPA was founded in 1981 and had applied for the right to audit companies 15 years ago.

He said the institute's exams had been vetted by the National Council of Education Awards and were "ahead of" those set by chartered accountants.

The Department of Enterprise and Employment said the application of the IIPA for audit status was properly vetted. The last body to receive audit registration was the Certified Public Accountants in 1984.

A spokesman for the department said: "The decision will be defended."

Irish auditors win right to challenge 300 accountants

By Jim Kelly in London

Auditors in Ireland yesterday won a judicial review of a government decision to let a previously unregistered body of 300 accountants carry out company audits.

Lawyers for leading accountancy bodies told the High Court in Dublin that the tiny Institute of Incorporated Public Accountants could not regulate its members properly as its last published accounts showed assets of only £196 (£297).

The action, by Ireland's four leading accountancy bodies who represent 15,000 qualified professionals, followed a decision by Mr Pat Rabbitte, minister for commerce and technology, to grant audit registration status to the IIPA.

The government's response will be closely watched by accountants throughout Europe, who could face extra competition from the body.

Leading accountants say the newly registered auditors could practise elsewhere in the EU if they passed national "top up" examinations.

The registration allows IIPA members to do audit work for the first time.

Accountants do not have to be qualified to practise, but auditors must be certified by a registered body before they can sign off a company's accounts.

Mr Niall Deasy, president of the Institute of Chartered Accountants in Ireland, told members in a letter that he was "astonished" by Mr Rabbitte's decision, which had been "made without any prior consultation."

Mr Brendan Dennehy, vice-president of the IIPA, described the attitude of the chartered body as "nothing short of arrogance and pomposity. It's a cartel situation. It's the old boys club."

"As far as regulation goes we were among the first bodies in Ireland to bring in outside people to our disciplinary committees," added Mr Dennehy,

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NEWS: EUROPE

Chirac aims to create professional, more cost-efficient model armed forces

French cabinet approves defence cuts

By David Buchan in Paris

The French cabinet yesterday approved and sent to parliament President Jacques Chirac's plan to create smaller, fully professional armed forces by the year 2002, using more cost-efficient weaponry.

With the phasing out of conscription, the 1997-2002 military programme law will see the French army shrink by 36 per cent to 171,000 personnel, the navy by 18 per cent to 56,500 and the air force by 34 per cent to 71,100. These numbers could be slightly higher if parliament decides to retain the option of a voluntary national service.

The international context of this is France's belated adjustment to the end of the Cold War and to the realisation that it no longer needs large numbers of soldiers to fight a potential war in central Europe, but rather a capacity to project a force to overseas trouble spots, something which Mr Chirac considers it woefully lacks at present.

The defence review also coincides with France's desire to return to near-full involvement in an Atlantic alliance reformed to give European views and interests greater weight.

Though the defence plans go as far as 2015, the shape of Mr Chirac's new model armies and their equipment will be substantially achieved by 2002, the end of his current presidential term.

The 1997-2002 plan caps annual spending at FF185bn (\$28bn) in 1995 francs, with an annual limit of FF180bn on equipment spending. This is about FF20bn a year less than was planned for equipment in the previous 1995-2000 programme, set out in 1994, but cuts since then make the decline less dramatic in practice.

The new law, which aims for 30 per cent savings in defence procurement over the life of the six-year programme, will hit a number of programmes, some in collaboration with European partners.

France has already signalled it wants a change in the project to develop with several other European partners a new military transport, the Future Large Aircraft. The new law contains only FF650m for a "new generation" air transport to buy some of these national aircraft, whose development France now believes should be done by the Airbus commercial aircraft consortium, not by governments.

French orders for the Franco-German Tiger attack helicopter are to be maintained at 25 over 1997-2002, but the first delivery to the army is to be delayed by two years. French officials claimed the contract

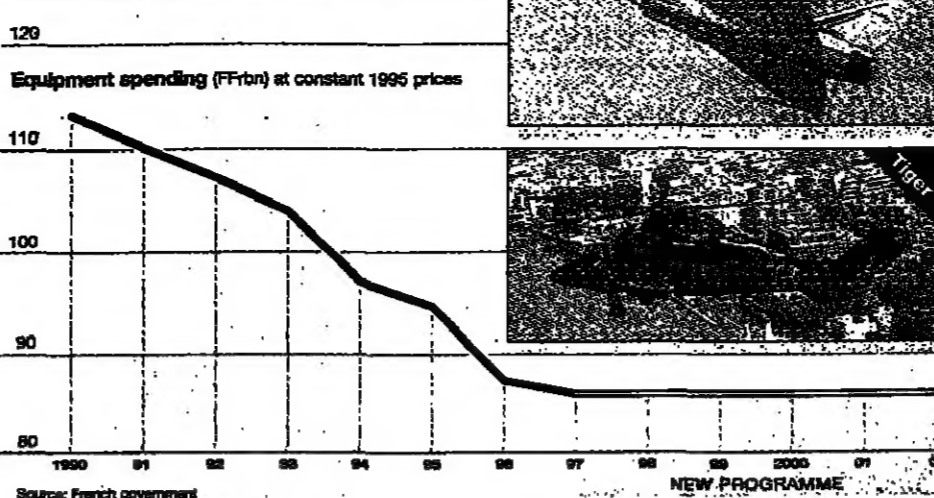
giving the Franco-German Eurocopter company the green light to start Tiger production would be signed this year, so there need be no delay in Tigers reaching the German army.

France is scrapping plans to build a sixth La Fayette-class "stealth" frigate, pulling out of the multinational MLRS army rocket programme, and scaling down technical requirements for a new armoured vehicle it hopes to build with Germany and perhaps the UK.

France's most expensive military programme, the Rafale fighter, is to continue at a slightly delayed pace, with the first 12 navy versions reaching the aircraft carrier Charles de Gaulle in 2002 and the first squadron of 33 reaching the air force in 2005. Over the long term, the navy is now to receive only 60 Rafales instead of 86, while eventual French orders for Leclerc tanks have been scaled down from 650 to 406.

The government announced in March it would not build a fifth new nuclear submarine, and yesterday said delivery of the third would be delayed until 2002. Mr Chirac has already announced the dismantling of land-based nuclear missiles, with France's future deterrent depending on submarines launched from submarines and aircraft.

French defence cuts: what they mean for the next century



The equipment		1995	2002
Army	Heavy tanks	827	420
	Helicopters	340	168
Navy	Nuclear missile submarines	5	4
	Aircraft carriers	2	1
	Anti-submarine frigates	11	8
Air Force	Combat aircraft	405	380
	Helicopters	101	86

The personnel		1995	2002	CHANGE
Army		268,800	171,400	-36%
Navy		69,900	56,500	-19%
Air Force		83,000	71,100	-14%

Chirac looks for stronger UK links

By David Buchan in Paris

President Jacques Chirac wants to forge stronger ties with Britain, believing there is nothing in the nature of France's relations with the UK that makes it necessarily less special than its relationship with Germany.

On the eve of his arrival in the UK today for a four-day state visit, the French president said in a briefing that he wanted to build on the two countries' political-military partnership in Bosnia and in the current reform of Nato.

He said he was very favourably disposed, for instance, to the UK joining the European armaments agency planned by Paris and Bonn.

The president said he detected a slight lessening of opposition in Britain to European economic and monetary union. Given the UK's treaty right to opt out of Euro, while its rigorous financial management put it within reach of the Maastricht criteria, Britain would have a free hand in deciding whether to join Euro. However, he believed it would be a founder-member of the single currency.

Strong ties between France, Germany and the UK were indispensable, he said. To some extent, France, with its highly developed relationship with Germany and its belief in a British role in Europe, held an intermediate position between Bonn and London. While France had no intention of trying to mediate, Mr Chirac stressed his recent role in helping Chancellor Helmut Kohl and Mr John Major, the UK prime minister, to understand each other's positions better.

After the second world war, France needed to forge a special relationship with Germany, Mr Chirac said. There was almost an obligation on every Franco-German summit to produce positive results. He hoped France and the UK would come to feel the same obligation to achieve results in their meetings. Tomorrow, the most substantive day of the president's state visit, Mr Chirac will have talks with Mr Major before addressing parliament and meeting business leaders at a Bank of England lunch. The president said he would be happy to see beef on that or any other menu he was offered in the UK.

Mr Chirac minimised his differences on social policy with Mr Major, who he said had welcomed the recent French memorandum on European social policy. But he welcomed the Labour party's commitment to signing the Euro-

pean social charter. Mr Tony Blair, the Labour party, and Mr Paddy Ashdown, the Liberal Democrat leader, are to call on Mr Chirac today at Buckingham Palace.

Mr Chirac was unrepentant over citing Britain's fully professional armed forces as a model for his plan to phase out military conscription in France. This might have annoyed a few French generals, he said, but the UK was able to project more force than France at less cost.

He expressed appreciation of British public support for his controversial nuclear tests. The UK and France have for several years held a shadowy dialogue on nuclear weapons doctrine, and Mr Chirac said he was in theory ready to see the two countries discuss every aspect of nuclear deterrence.

Battle of baguette pits bakers against big battalions

By Andrew Jack in Paris

The French prime minister, Mr Alain Juppé, yesterday kicked off a three-day national celebration of his country's bread, in an initiative designed to support the work of traditional bakers in the face of growing competition from factory-produced baguettes.

The baguette has become a centrepiece in the struggle between small and large shopkeepers, both as a symbol of traditional French food and because it was one of the first products to be liberalised when price controls were relaxed in the 1970s, making it an early battleground for predatory pricing.

Mr Juppé signed a charter for developing artisan bakeries which will provide finance for modernisation and train apprentices.

The charter will also forbid bakers who do not make fresh bread according to a five-step process to go on describing themselves as *boulangers*.

The move at the start of the *fête du pain* marks the latest in a series of government efforts to be seen to be supportive of small shopkeepers and producers in the face of what they perceive as an unacceptably strong growth of hypermarkets in the past few years.

Large retailers are accused of cutting prices to drive out competition, and using frozen dough and other industrial methods in the preparation of the baguettes they sell.

President Jacques Chirac launched a renewed attack against them this month, saying their contribution to France had been "extremely negative", and accusing them of helping to undermine rural life.

The president has sought to associate himself with the plight of small businesses and artisans.

Mr Juppé said yesterday the government's new competition law, currently before parliament, would end "media operations such as the one-franc baguette", priced at substantially less than its production costs.

Large retailers had sometimes indulged in commercial practices which had "strongly prejudiced employment, the environment and simply our quality of social life", he declared.

The large retailers are not allowing the celebrations to be monopolised by their smaller rivals.

Carrefour, one of France's largest supermarket chains, launched an advertising campaign yesterday stressing its participation in the celebrations and stressing the quality and variety of bread produced by its bakers.

Mr Daniel Bernard, the group's chairman, has long argued that it is being used as a scapegoat, and the quality of the EU, which has often cited supervision of the city as one of the main successes of the EU's foreign policy.

Bulgaria forced to bite bullet over reforms

The moment of reckoning has arrived for Bulgaria. The huge losses run up by state companies and the virtual collapse of the banking system are finally pushing the Socialist government into beginning the painful reforms that have been avoided ever since the collapse of communism.

The drastic increase in interest rates imposed to shore up the beleaguered currency, the lev - the central bank interest rate was raised from 87 per cent to 108 per cent last Friday - was only the latest and most dramatic symptom of the crisis that goes to the core of the economy.

The lev has lost about a third of its value against the dollar this year, though it recovered slightly to around 108 lev to the dollar yesterday with the prop of the emergency rise in interest rates. It had plunged to below 120 last week from 70.70 at the beginning of the year.

The queues outside the banks in Sofia and in other cities were a stark reminder yesterday of the challenge facing the government, as it entered the second week of intense negotiations with

Collapsing currency and massive losses run up by state companies have forced the government's hand at last, writes Kevin Done in London

officials of the International Monetary Fund and the World Bank.

The talks are focusing on reform measures to rehabilitate the desperately under-capitalised banks, to restructure hundreds of heavily loss-making state enterprises and speed the pace of privatisation.

The banking system is suffering severe stress, with about 74 per cent of its assets represented by non-performing loans.

The mountain of bad debt totalling around 343bn leva (\$5.1bn at 1995 exchange rates) at the end of last year is equivalent to around 40 per cent of gross domestic product.

The bad debts are concentrated in some 10 state banks, which alone have non-performing loans of 258bn leva out of their total portfolio of 318bn leva, according to estimates by western financial officials.

Some 37 private banks have bad debts of 55.1bn leva in a portfolio of 146bn leva.

When a western bank has a ratio of non-performing loans to total assets of 10 per cent, then it is considered in very bad shape. In Bulgaria, more than 70 per cent of bank loans are non-performing, one western banker said yesterday.

It is estimated that it will take between five and 10 years to bring Bulgarian banks up to even minimum capital adequacy ratios.

Given their present negative worth "it could cost \$1.5bn to

reach even a 4 per cent capital adequacy level, with western banks regarding 8 per cent as the minimum needed", in the words of one observer.

The Gordian knot that must be severed is the link between this mountain of bad debt and the losses that are still being run up by the beleaguered state-owned enterprises.

According to research by Merrill Lynch, "these non-performing loans are in turn supporting unprofitable enterprises, which would have been made bankrupt under a 'normal' banking system".

State enterprise losses have been equivalent to between 13 and 20 per cent of gross domestic product during each of the past three years.

The losses result in part from alleged corruption and from "profit-shifting" - the transfer of profits from state enterprises to small private companies.

"Profit shifting typically occurs when a private-sector company provides inputs to a state enterprise and sells the final product at prices that have been designed to ensure a profit for the private company and a loss for the state enterprise," claims Merrill Lynch.

For the past six years Bulgarian governments have shied away from undertaking painful economic reforms. Bulgaria has lagged behind the rest of the former Communist countries of central and east Europe in privatisation and it has been largely shunned by foreign investors.

As foreign exchange reserves dwindle and a bulge of debt payments looms in the third quarter, it must finally bite the bullet.

Theodor Troev said from Sofia: Over the weekend, Mr Zhan Videnov, the prime minister, stressed the urgency of reform while being careful to stress the importance of measures for "neutralising the social cost of reform".

Local media remained sceptical. "If Mr Videnov does not manage to overcome this contradiction, he will be like a driver who is pressing the brakes and the accelerator at the same time while the car is falling down the precipice," said a Sofia newspaper.

Greece avoids EU clash over aid to Turkey

By Bruce Clark in Brussels

Greece stepped back from a bitter confrontation with its European Union partners yesterday by agreeing that an aid programme for 12 Mediterranean countries, including Turkey, should be referred to the European parliament.

But Mr Theodore Pangalos, Greek foreign minister, insisted there was no question of Athens approving direct EU aid to Turkey until Ankara agreed to legal arbitration over the status of an Aegean island.

In a compromise aimed at heading off a complete paralysis of the EU's economic policy in the Middle East and North Africa, Mr Pangalos abstained in a vote on referring the 12-nation Med aid programme to Strasbourg.

This move will keep discussion going over the programme which is worth at least Ecu3.4bn (\$4.2bn) between now and 1998, and avoid embarrassment for the EU in its dealings with the Arab and North African world.

But Athens will reserve the right to block Turkey's share of the programme, as well as Ecu3.75bn in direct credits to Ankara, as long as territorial issues remain unresolved.

"Greece has made a positive gesture which has well received by its partners, and by countries in the region affected," said Mr Hervé de Charette, the French foreign minister, in a reference to the abstention.

Mr Pangalos said Greece's future stance would hinge in part on the outcome of his next meeting with Mr Emre Gonenay, on the margins of a Nato foreign ministers' meeting in Berlin in June. At their previous meeting in Bucharest, Mr Pangalos said, the Turkish minister had been reassuring on some issues but he had also appeared to broaden Turkish demands by asserting that some Aegean islands belonged to a "grey zone".

The Greek minister insisted that a ministerial meeting between the EU and Cyprus would go ahead today without any linkage with the Turkish bilateral dispute and prospects for Cyprus joining the EU.

European Union foreign ministers yesterday gave a cautious welcome to the latest moves by Switzerland in its negotiations on a new relationship with the EU, but said some important hurdles remained to be cleared, writes Bruce Clark.

They "noted with interest" Swiss proposals but added that "problems of varying degrees of seriousness" were outstanding, particularly over free movement of people and transport.

Switzerland agreed last month to start negotiations which could lead to the abolition of immigration quotas for EU citizens.

On another sensitive issue, Switzerland has offered to abolish the 28-tonne limit on trucks passing through its territory and rely on fiscal measures as the main instrument to regulate road haulage.

Swiss officials had urged the EU to send a positive political signal, on grounds that Swiss voters needed reassurance if any new accord was to have a chance of winning acceptance.

"Such a link is completely unacceptable, because Cyprus is an independent country, which has been the victim of Turkish occupation," Mr Pangalos said.

The ministers also considered the situation in former Yugoslavia, especially the mounting tension in the EU-administered city of Mostar, where the Muslim community in the eastern sector is refusing to co-operate with forthcoming elections.

However, the ministers stopped short of deciding to postpone the ballot, now scheduled for the end of May, and pledged instead to follow closely the guidance of the city's EU administration.

Failure in Mostar, where Croats and Muslims fought a bitter war in 1995, would be a blow both to the Bosnian peace process and to the credibility of the EU, which has often cited supervision of the city as one of the main successes of the EU's foreign policy.

EUROPEAN NEWS DIGEST

German unions in strike move

Warning strikes broke out across Germany yesterday as postal workers stopped sorting letters and waste collectors left rubbish untouched in protest against the attempt by the government and public sector employers to freeze wages and cut social security benefits.

Trade union leaders said the action would be stepped up this week to include hospitals, airports and other important services if pay talks which resumed yesterday did not lead to a better offer for the country's 3.2m public sector employees. Unions, headed by the big OTV public sector union, are claiming 4.5 per cent.

The employers, whose negotiating team is headed by Mr Manfred Kanther, the interior minister, have yet to make a firm offer. A two-year wage freeze, accompanied by reductions in sickness pay and increased working hours, is a cornerstone of the federal government's comprehensive budget savings package.

Yesterday's warning strikes were scattered across the country, involving brief industrial action lasting several hours. Postal employees in Munich, Hamburg, Stuttgart and other cities halted mail deliveries, and other public sector workers also stopped work for short periods. Banking unions, which have put in a 5.5 per cent claim, also threatened warning strikes if employers did not drop demands for low pay increases and longer working hours, including Saturdays.

Yilmaz under coalition fire

The coalition partners of Mr Mesut Yilmaz, the Turkish prime minister, yesterday accused him of sabotaging their alliance by revealing state secrets to the press in the latest corruption row to hit the government.

Mr Yilmaz, the trade and industry minister, claimed that Mr Yilmaz, or a close aide, had leaked a document that showed that Mrs Tansu Ciller, the former premier, had withdrawn \$6.5m from a slush fund for security operations before she left office in March. "Only the prime minister or his adviser has access to this kind of secret document. It couldn't have come from a third person," Mr Erez said.

Mrs Ciller has acknowledged delving into the slush fund to finance secret security operations, which she has refused to divulge. Mr Yilmaz and scores of MPs from his Motherland party last week angered Mrs Ciller's True Path party by voting for an opposition motion to set up a parliamentary probe into separate corruption accusations against her.

No extradition for Dassault

The French government will respond to requests for information from the Belgian judicial authorities on Mr Serge Dassault, the chairman of Dassault Aviation, but will not extradite him, a government spokesman said yesterday. "We have signed and we will apply a convention of mutual European judicial assistance... The Belgian authorities are asking for information; naturally replies will be made directly," he said after a cabinet meeting.

A Belgian judge issued an international arrest warrant for Mr Dassault, after the businessman earlier this month refused to go to Belgium to answer questions in a corruption inquiry. The Belgian authorities are investigating alleged bribes relating to a contract to modernise its F16 fighter aircraft in the late 1980s.

Mr Dassault said he had not gone to Belgium because the country lacked certain basic rights, and there had been precedents weighing against French businessmen. He said he was ready to give information from France.

Basque party faces prosecution

Spain's director of public prosecutions is looking into action against the Basque political party Herri Batasuna (Popular Unity), which is linked to the illegal Eta organisation. The move follows publication of an internal party document calling on Eta to use "the most potent means" to back its demands and rejecting the idea of a truce until the government sat down to negotiate.

The document, published in a Bilbao newspaper, also attacked the moderate Basque Nationalist party for agreeing to give parliamentary support to the new centre-right government in Madrid in what it called "an unconditional alliance with the [Spanish] state".

The justice department in the Basque country said it, too, would investigate the case to see if the document constituted incitement to terrorism. One of the main Herri Batasuna leaders, Mr Jon Idigoras, was arrested in the run-up to the March 3 general election over a party campaign video featuring masked Eta members.

Yugoslav bank chief defiant

Mr Dragoslav Avramovic, governor of the Yugoslav central bank, attacked the government's privatisation law yesterday, and demanded to be put back in charge of talks with the International Monetary Fund. In a speech to 2,000 factory workers demonstrating in Belgrade for jobs, he warned that government pressure on the bank to print money threatened Yugoslavia - now comprising Serbia and Montenegro - with inflationary "catastrophe within two weeks". Opposition leaders and Mr Avramovic's supporters in the bank fear the Socialist government will try to sack him at a federal parliament session on Tuesday when the privatisation law will be discussed.

Vowing not to bow to pressure from key ministers to print money to fund the economy while the terms of IMF membership were dealt with, Mr Avramovic said: "Any printing of money would destroy us... In two weeks we would return to 1993 when the sky fell on the earth and when people worked for two D-Marks."

Moldova gets tough over taxes

Moldova may seize the property of citizens failing to pay their taxes on time under a new law to counter tax evasion, the finance ministry said. Like many former Soviet republics, Moldova is suffering from a failure to receive a large part of budgeted taxes. The finance ministry said at the weekend its tax inspectors would now get tough with people owing money to the government, under a law which came into force last Wednesday.

"The new law envisages measures including the confiscation of the property of people who do not make timely payments to the budget," said Mr Ion Briceanu, the chief tax inspector. The government introduced the law after tax arrears reached \$128m in the first quarter of 1996. People who fail to pay taxes within 15 days will be given notice in writing to clear their debts within 30 days.

Belgium's prime minister, Mr Jean-Luc Dehaene, won a confidence vote in parliament over plans to make extra savings in the 1996 budget and reform the social security system. Mr Dehaene decided to put his budget policy to a vote after failing to win across-the-board support from trade unions and business aimed at building a national consensus.

Dutch consumer prices in April rose 0.1 per cent from March and were up 2 per cent year-on-year. In March, the index was up 0.9 per cent from February and up 2.1 per cent from March 1995. In April 1995, the index rose 0.2 per cent from the previous month and was up 2.3 per cent from a year earlier.

Consumer prices in the Czech Republic increased by 4.1 per cent in the first four months of the year, the country's statistics office reported yesterday. Consumer prices in April rose by 0.6 per cent from March and by 8.5 per cent from April 1995.

Ukraine posted a trade deficit of \$553.3m in the first three months of 1996 compared to a deficit of \$280m for the same period of last year. Exports in the January-March period totalled \$2.5bn, and imports \$3.1bn.

Slovakia's unemployment rate dropped to 11.7 per cent in the first quarter of 1996 from 14 per cent in the first three months of 1995.

THE FINANCIAL TIMES
Published by The Financial Times (Europe) GmbH, Nibelungenstrasse 3, 60318 Frankfurt am Main, Germany. Telephone +49 69 156 830. Fax +49 69 396 4481. Registered in Frankfurt by J. Walter Berndt, Wilhelmstr. 1, 60318 Frankfurt am Main. Deputy Chairmen: Shareholders of the Financial Times (Europe) GmbH are: The Financial Times (Europe) Ltd, London and F.T. (Germany) Advertising Ltd, London. Shareholders of the above mentioned companies are: The Financial Times Limited, Number One Southwark Bridge, London SE1 9HL.

GERMANY:
Responsible for Advertising: Colin A. Kennedy, Printer: Henschel International Verlagsgesellschaft mbH, Adminal-Rosenstrasse 3a, 63263 Neu Isenburg ISSN 0174-7563. Responsible Editor: Richard Lambert, c/o The Financial Times Limited, Number One Southwark Bridge, London SE1 9HL.

FRANCE:
Publishing Director: P. Marvaglia, 42 Rue La Boétie, 75008 PARIS. Telephone (01) 576 3254. Fax (01) 576 8253. Printer: S.A. Nord Edit. 1521 Rue de Caen, F-93100 Roubaix Cedex 1. Editor: Richard Lambert. ISSN 1148-2753 Commission Paritaire No 6180ED.

SWEDEN:
Responsible Publisher: Hugh Carnegie 468 618 0083. Printer: AB Kvalitetstryckeriet. Expressen, PO Box 6007, S-550 06, Jönköping.

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Editor: Richard Lambert.
c/o The Financial Times Limited, Number One Southwark Bridge, London SE1 9HL.

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EU sets sights on deal with Mexico

By Caroline Southey in Brussels

European Union foreign ministers yesterday agreed a negotiating mandate for a trade pact with Mexico, but stopped short of allowing creation of a free trade area (FTA) between the EU and Mexico in the medium term.

The mandate had been held up by objections from some member states, notably France, that the EU was about to enter into another wide-ranging free trade agreement.

The EU's policy on FTAs has stirred controversy recently, with foreign ministers delaying for five months the terms of a deal with South Africa because of fears that the proposed FTA threatened EU agricultural interests.

EU agricultural ministers last week called for a more cautious approach towards the creation of FTAs.

The mandate for a deal with Mexico allows for negotiations on a sector-by-sector basis. But decisions on opening up the agriculture sector will have to be agreed unanimously by the EU ministers, while other sectors can be agreed by a qualified majority.

Britain, Sweden and Spain rejected an earlier proposal which stipulated that deals on all sectors had to be agreed unanimously. British officials said the fear was that Mexico would reject the terms of such a deal.

Mr Michel Barnier, the French European Affairs minister, said the EU "won't go to free trade but can go very close". Mr Hervé de Charette, the French foreign minister, said the aim was for the "progressive liberalisation of exchanges between the two sides".

Mr Klaus Kinkel, German foreign minister, said a deal was very important for the EU because Mexico was an important industrial partner. "The EU has every reason to take responsibility in this matter," he said.

Beijing talks seek to avert sanctions

By Tony Walker in Beijing

Mr Lee Sands, the US assistant trade negotiator, began talks in Beijing yesterday aimed at averting a trade war over alleged widespread Chinese abuses of intellectual copyright agreements. But there was no indication of progress in the discussions, which were expected to continue for several days.

The US has said it will target \$2bn-worth of Chinese exports with punitive sanctions if China fails to live up to undertakings to curb counterfeiting of information and entertainment products. Beijing has

threatened to retaliate.

The US has set a 30-day deadline from May 15 for compliance. This follows a similar pattern to a dispute last year, which resulted in an 11th-hour compromise.

US officials and business representatives expect sanctions to be averted again this year but they also recognise that difficult Sino-US relations on a range of issues, including Taiwan and human rights, are complicating matters.

China continues to deny vigorously it has been negligent in enforcing a February 1995 agreement to curb counterfeiting of such items as compact

discs, videotapes and computer software. "China has fully implemented the Sino-US intellectual property rights (IPR) agreement signed last year," the official Xinhua news agency asserted last night.

Quoting Mr Wang Huapeng, director of the copyright department of the National Copyright Administration, Xinhua said: "China has made breakthroughs in nationwide crackdowns on piracy and has already contained the once-rampant infringement of IPR in some areas."

But US officials say the situation has worsened since last year, with Chinese factories

continuing to produce millions of pirate compact discs, CD-ROMs and computer software. The US entertainment and information industry estimates that counterfeiting cost it \$2.3bn in 1995.

Mr Sands is known to believe China will not live up to undertakings to curb intellectual property rights abuses without pressure.

China claims to have closed at least six pirate CD production lines recently, but US officials are sceptical. They want to see more evidence of Chinese efforts to combat piracy before lifting the sanctions threat.



Lee Sands: doubts intellectual property rights pledges

High-tech diagnosis for Cuba's ills

Canadians will help Havana to export biotechnology products, writes Pascal Fletcher

The economic crisis that descended on Cuba after the collapse of the former Soviet Union paralysed many factories, sharply depressed living standards and forced many Cubans to swap their cars for bicycles and their tractors for oxen.

But it did not stop President Fidel Castro's government from forging ahead with an ambitious - some critics would say unrealistic - programme to build a hard-currency export sector in high-tech medical and biotechnology products.

Now a Canadian company, York Medical, has joined in to help develop and sell Cuban biotechnology products in Canada and Europe, an initiative its executives believe will be unaffected by recent US legislation aimed at discouraging foreign investment on the island.

Cuba has granted the Toronto company licences to test and market human and veterinary pharmaceuticals produced by the island's state-run biotechnology industry, which foreign experts describe as one of the most scientifically advanced in the developing world.

The deal includes transfer of technology, clinical trials in specialised Canadian biotechnology centres and training and participation of Cubans in the development, marketing and selling of the products. "This is a whole package," York Medical's chairman, Mr David Allan, said.

Blessed with the Mr Castro's encouragement, Cuba's biotechnology sector has received hundreds of millions of dollars of state funding during the last decade. Cuban research centres have developed products ranging from anti-meningitis and hepatitis vaccines to "blood clot busters" and diagnostic kits. This has led to a striking anomaly:



Hospital in Havana: Cuba is pushing high-tech medicine

Cuba is far from being self-sufficient in food but it is a leading producer of interferences and monoclonal antibodies.

But despite earlier marketing deals with foreign companies, the Cuban biotechnology sector appears to have had only limited success in generating a viable, sustained export business.

The main known exports up to now have been sales, mostly in Latin America, of an anti-meningococcal meningitis Group B vaccine and a cholesterol-lowering drug, PPG. Cuban-produced interferences are sold to China. According to Cuban figures, revenues from Cuban pharmaceutical and biotechnology exports now total more than US\$100m a year and have earned more than US\$500m since 1988.

York Medical hopes to provide Cuba with an entry to the biotechnology markets of the developed world. It aims to tackle major weaknesses such as the Cuban lack of experience in key areas, including quality control, regulatory licensing, financing and above all marketing and selling.

The Cuban products have sometimes had difficulty getting independent validation and have faced widespread scepticism. "If you're a doctor in Europe, you're not immediately going to try something from Cuba, if someone's life is at risk," one foreign expert said.

Nevertheless, Cuba's biotechnology research has attracted interest from European and US scientists and even from such big US pharmaceutical companies as Merck, Eli Lilly and Bristol-Myers Squibb, although the US embargo on Cuba rules out sales to the US.

But Cuba's biggest challenge is to get its products to market, not least because, as one investment analyst put it, biotechnology development requires "incredibly deep pockets".

"A very hard look has to be taken at all of the products to assess what their real value is in the short-term," said Mr Peter Scott, chairman of Beta Gran Caribe, an Anglo-Spanish managed investment company specialising in Cuba. Beta is negotiating investments in at least one Cuban biotechnology product.

Mr Allan said York Medical planned to develop some 15 Cuban products. Clinical trials had already commenced on a first group, described as "low risk, early to market" items.

These included Heberquinasa, which dissolves blood clots; an epidermal growth factor incorporating monoclonal

anti-bodies to diagnose and treat tumours; Dramak, an antibiotics testing system; Dermofural, a sugar-cane extract used as an anti-bacterial and anti-fungal cream; and Uderetan, produced from red mangroves and used to disinfect cow udders.

Mr Allan said five separate 50-50 joint ventures had been formed for separate products, each linking York Medical to a specific Cuban research centre.

The company did not believe its initiative would be affected by US measures in March to tighten the US economic embargo against Cuba. The latest US measures threaten legal action and sanctions against foreign companies and their executives who "traffic" in formerly US-owned property expropriated after the 1959 Cuban Revolution.

"The point is that the US bill is aimed at those dealing in confiscated property. In our case, the intellectual properties and scientific institutions we are dealing with have only come into existence over the last decade or so," Mr Allan said.

York Medical had received support and financing from the Canadian International Development Agency and the Medical Research Council of Canada.

"We wrapped ourselves in the Canadian flag," Mr Allan said.

The Canadian government strongly opposes the latest US sanctions on Cuba.

York Medical groups a number of private investors, including the government of Canada's Saskatchewan Province, where some of the clinical trials are being held. Additional funds for the trials would be raised through successive waves of equity financing, or, if necessary, a public issue.

WORLD TRADE NEWS DIGEST

Mobil to expand Saudi venture

Mobil of the US and Saudi Basic Industries Corporation (Sabic) are to spend \$2bn expanding their petrochemicals joint venture at Yanbu, on the Red Sea coast of Saudi Arabia. Output will more than double, making Yanbu one of the largest petrochemical complexes in the world.

This will be the first big expansion of the project since it began production in 1986. Mobil, which will contribute \$1bn of the cost, claimed the expansion would make Yanbu the lowest cost ethylene producer in the world.

The partners will add a second ethylene cracker, doubling ethylene output to 1.6m tonnes. The new plant will convert ethylene more efficiently, producing 30 per cent more derivative products than the old. Output will consist of 535,000 tonnes of polyethylene, 410,000 tonnes of ethylene glycol and 260,000 tonnes of polypropylene. Construction of the new plant is expected to start next year. Tony Jackson, New York

TRW sues rival over satellite

TRW, the US aerospace group awarded patent protection for its design of a satellite-based global phone system last year, yesterday filed a lawsuit against ICO Global Communications, a subsidiary of the London-based Inmarsat organisation.

The suit seeks an injunction against ICO Global's development of its proposed Inmarsat-satellite-based personal communications system, alleging the system infringes TRW's patent.

TRW is the system contractor for Odyssey, a competing \$8bn worldwide satellite-based cellular system due to begin operations in 1999. The other main competitor is Iridium, a consortium headed by Motorola of the US, which is already building its system.

The patent at the heart of the TRW suit relates to a method for providing worldwide satellite-based cellular communications using satellites in a medium-earth orbit, low-powered pocket telephones, and "gateways" to terrestrial telephone systems. Paul Taylor, London

Nestlé stake in Thai group

Nestlé, the Swiss food group, has agreed in principle to buy a majority stake in Danish Dairy Industries, one of Thailand's largest dairy products producers and distributors.

Terms were not disclosed but under the terms of the preliminary deal, Nestlé will take a 60 per cent stake in Danish Dairy, with the remaining 40 per cent staying in the hands of the Thai Dairy Group, led by Mr Vahsi Fursuwan, a Thai-Indian businessman.

Nestlé said the deal would be completed shortly and become effective on July 1.

Danish Dairy is strong in the food service sector, supplying many of Thailand's fast-food chains. Nestlé has a large presence in the Thai dairy market. Ted Bardacke, Bangkok

China and Taiwan in jet project

China and Taiwan are to join a major multinational project to build 100-seat regional passenger jets, officials said yesterday.

The US\$2bn project will be finalised next month after China selects a partner - either Boeing of the US or Air International Regional, an Anglo-French aircraft maker, said Mr Jack Sun, chairman of Taiwan Aerospace.

Aviation Industries of China, which devised the project two years ago, would have about a 45 per cent stake, Mr Sun told reporters. A Singapore group would take 20 per cent, Taiwan up to 10 per cent, and the western partner the rest. AP, Taipei

Why he can look forward to living twice as long as he would have a century ago.

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At the turn of the century the average life expectancy was 40 years. Today in Germany, for instance, women live to be around 80 and men 76.

tetanus, as well as antibiotics to fight infectious diseases. Not to mention important medications that have contributed to the successful treatment of heart disease and strokes.

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Japan's current account surplus declines

By William Dawkins in Tokyo

Japan's enhanced appetite for imports caused its current account surplus to contract by nearly a quarter in the fiscal year to March, the third year of decline and a factor in continued yen weakness.

The balance of payments gap shrank by 33.3 per cent to ¥9,480bn (\$90bn), the lowest for six years, the finance ministry announced yesterday. But the rate of decline slowed significantly in March, when the surplus reached ¥1,280bn, down a mere 8.5 per cent on the same month last year.

The fall of more than 30 per cent in the yen's value against the dollar during the fiscal year has made

imports to Japan more expensive.

If the exchange rate holds at this level, around ¥105 to the dollar, the rate of improvement in the surplus will continue to slow, predicted Mr Richard Koo, senior economist at Nomura Research Institute.

No economists, however, believe that imports will go into reverse because a substantial proportion of imported goods are made by Japanese companies which have set up abroad to service the domestic market from a cheaper base.

Indeed, Japanese trade dipped marginally into deficit in the first 20 days of April, since when it has returned to surplus, according to preliminary official data. Some econo-

mists, such as Mr Masaru Takagi, chief economist at Fuji Research Institute, argue industrial expatriates have become so numerous that imports will continue to grow regardless of yen weakness.

The full-year decline was in line with private sector economists' expectations but brought the surplus well below the government's own forecast of ¥10,000bn.

Within last year's current account, Japan recorded a ¥5,722bn deficit in services, a 13.5 per cent increase on the previous year, driven by a record ¥3,299bn deficit on the tourism account.

Japanese travellers continue to find foreign holidays far cheaper than domestic breaks,

even after the yen's fall against the dollar since last summer.

The surplus in manufactured goods, meanwhile, fell by 17.5 per cent to ¥11,629bn, the third year of decline.

A 16.7 per cent rise in imports to a record ¥29,607bn easily outstripped last year's 4.4 per cent rise in exports.

Manufactured goods represented a record 60 per cent of total imports, three times the level of a decade ago. Computers, semiconductors and cars were among the fastest growing imports last year, said the ministry.

Separately, the ministry revealed yesterday that foreign investors bought a record net ¥6,933bn of Japanese shares in the last fiscal year, both cause

of and contributor to the rise in Tokyo share prices.

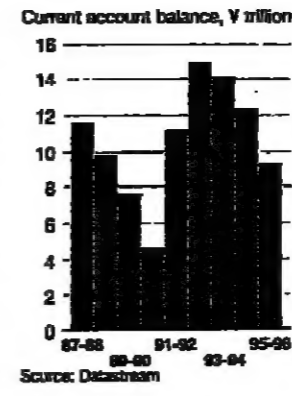
In the final month, March, they bought a net ¥1,099bn, the second largest monthly purchase recorded.

Japanese investors, meanwhile, have been recent sellers of foreign equities, following the usual end of year practice of taking investment profits to supplement their own companies' profits.

Japanese investors sold ¥119.9bn of foreign shares in March, down slightly from ¥145.9bn in the previous month, said the ministry.

Overall, the net capital and financial account showed a ¥282bn outflow in March, after a ¥1,300bn net inflow in February. This came as a result of a

smaller rise in loans made by foreign banks to Japan and an increase in lending by Japanese banks abroad.



Source: DataStream

Sharma faces crucial choice

By Shirez Sidwa in New Delhi

All eyes are on Indian President Shankar Dayal Sharma. The 77-year-old scholar and veteran of Congress party governments is expected to decide by the weekend which political grouping should be invited to form India's next government in the wake of the general election that has delivered a hung parliament.

He faces a difficult task, say constitutional experts. That is because there is no clear-cut constitutional guidelines about the role of the president in a situation when no single party has won a governing majority in the lower house. In effect, he is bound only by conventional and not by constitutional propriety to invite the largest single party.

There have been coalition governments before - in 1969 and 1978 Mrs Indira Gandhi and Mr Charan Singh were

forced to form coalitions. But the most recent crisis when a president was required to intervene was in the 1989 election, when the Congress party of Mr Rajiv Gandhi emerged as the largest single party but well short of a majority.

It was only when Mr Gandhi declined to form a government that Mr Venkataraman, the then president, allowed the National Front led by Mr V P Singh, 30 days to choose a leader and ultimately to form a government.

In the current crisis, analysts expect the president may call upon the more cohesive grouping around the Bharatiya Janata party (BJP), the largest single party, to form a government.

Though there are fears that Indian politics may lose its secular character with the right wing Hindu fundamentalist BJP in power, the party, under the leadership of Mr Atal Behari Vajpayee, may be the

only one able to form a coalition capable of governing.

"Mr Sharma has shown in recent years that he is not content to be a mere rubber-stamp. He is not afraid to take bold steps when they are required," says a senior official in the president's office.

The office of the presidency has in the past been a highly politicised one. Mrs Indira Gandhi was widely criticised for her partisan attitude to the office, notably in her appointment of Congress party member Giani Zail Singh in the mid-1980s.

She also used president's rule to replace non-Congress governments in states. The grey areas in the constitution have sparked debate.

Mr Soli Sorabjee, a constitutional expert and former attorney-general, says the president should give the leader of the largest party a chance to prove his majority in the house and form a government.



President Shankar Dayal Sharma faces difficult task, say constitutional experts

Mr K K Venugopal, Supreme Court lawyer and constitutional expert, agrees and adds: "The test is really who is the leader capable of providing a stable government."

Editorial comment, Page 13

Naming of HK chief executive may be delayed

By John Riddling in Hong Kong

The selection of Hong Kong's first chief executive, the head of the post-colonial administration after next year's handover to China, could face a delay of several months, according to comments by a senior Chinese official.

Mr Zhou Nan, director of the Hong Kong branch of Xinhuas, China's de facto embassy in the territory, said yesterday a Beijing-appointed body overseeing next year's transfer of sovereignty needed more time to determine the formation of a 400-member committee that will choose the chief executive.

Although China has not formally stated the timetable for the selection process, members of the Beijing-appointed Preparatory Committee had indicated that a decision was due during the autumn. One committee member suggested that this could now be pushed back by several months.

The Hong Kong government is seeking a decision on the issue as early as possible, partly to remove uncertainty ahead of the transition.

The nomination of a chief executive designate would also curb the role of Chinese officials in Hong Kong affairs by establishing the head of the Special Administrative Region (SAR), as Hong Kong will be known after the handover.

Mrs Anson Chan, Hong Kong's chief secretary, yesterday stressed the tight timetable in managing the transition.

"Time is rapidly running out. We have just over 400 days to put in place all the necessary mechanisms to enable the SAR to exercise a high degree of autonomy," she told a seminar of parliament-

arians from the Commonwealth. Mr Chan said Chinese leaders need to show "more co-operation" over the transition.

In comments directed to the territory's business community, she also said that Hong Kong people who have dealings with China should be "more prepared to stand up to defend and to explain our autonomy".

The comments follow remarks by Mr Chris Patten, Hong Kong's governor, who

has criticised Hong Kong's tycoons for failing to defend the territory's autonomy and institutions. Mrs Chan is widely backed in Hong Kong to take over from Mr Patten as the first chief executive after the handover.

However, most political analysts believe it is more likely that she will remain as chief secretary, the head of the civil service, partly because of her close association with the current administration.

The Eastern Express, one of Hong Kong's three English-language dailies, yesterday announced that it will change its format to become a business-oriented publication rather than a general newspaper. The loss-making newspaper cited overcrowding in the English-language general newspaper market as the reason for the move. The change is estimated to involve about 40 job cuts.

Jail escape angers Indonesians

By Manuela Saragosa in Jakarta

The escape from jail of one of Indonesia's most notorious white-collar criminals has outraged Indonesians but surprised few, as details emerged of his break-out and privileged treatment in prison.

Mr Eddy Tansil, 42, an entrepreneur jailed for 20 years in 1984 for defrauding a state bank of more than \$500m, allegedly changed his hair style, grew a beard, paid bribes to prison wardens and escaped in a taxi.

Indonesian authorities have

yet to find him but police have arrested 10 prison wardens and security guards working at the Jakarta jail where he was being held until his escape just over a week ago.

Mr Tansil's conviction, with five former bank executives jailed for four to nine years for their involvement in the loan scam, was intended to serve as an example to Indonesia's business community.

His escape, say observers, makes a mockery of a justice system which before now has suffered a credibility problem, and of government reformers studying the state banking

sector, saddled with high levels of bad debt.

Mr Oetjo Oesman, justice minister, was not informed of Mr Tansil's break-out until three days after it occurred on May 4, too late to warn port and airport authorities.

Public anger is growing as details of Mr Tansil's escape and two-year period of custody emerge. One Indonesian lawyer called the affair a "tragedy".

An editorial in the English-language newspaper Jakarta Post said the case, "far from being an isolated example, is a symptom of the myriad complex social afflic-

tions which are plaguing our society".

Speculation is rife about whether any officials colluded in Mr Tansil's jailbreak. It is not clear how prison wardens could have acted independently if they released a high-profile inmate whose trial only two years ago was so highly publicised.

The justice minister has set up teams from the ministries of justice, home affairs, foreign affairs, information, the attorney-general's office and the army to catch Mr Tansil. But few believe he is still in Indonesia.

Weary civilians return as the rebuilding of Jaffna begins

Amal Jayasinghe visits the once rebel-run town in northern Sri Lanka

When last year the Tamil Tigers ruled Jaffna, the battle-weary capital of northern Sri Lanka, it was an ever-growing monument to dead rebels while those who survived took credit for running an administration with cash from the very government they fought.

Jaffna was the epicentre of the separatist struggle of the Liberation Tigers of Tamil Eelam (LTTE) for decades but the army wrested control of it in December after nearly 50 days of ferocious battles.

At the time it seemed a Pyrrhic victory for government forces which saw some 500 soldiers killed and another 2,500 wounded and ended up taking a ghost town.

The Tigers may have lost the battle, with some 3,000 of their combatants killed, but they succeeded in ordering the 500,000 Tamil civilian population out of this psychologically vital town before the army moved in.

However, the exodus reversed when soldiers mounted another campaign to capture the fall-back citadel of the Tigers at Chavakachcheri, just 20km to the east, and sealed off the entire Jaffna peninsula last month.

A senior military leader who was involved in the rout of the Tigers said the militants had been crushed but did not rule out a jungle battle with the guerrillas, who are known to have some of the world's deadliest suicide bombers.

Major-General Janaka Perera said although they had broken the back of the Tigers, the rebels could still infiltrate and stage hit-and-run attacks.

"We have drastically and extensively reduced the fighting capability of the LTTE," Gen Perera told the first reporters allowed into the town since the latest round of fighting known as Eelam War III broke out in April last year.



Jubilant Sri Lankan soldiers late last year march through the suburbs of rebel-held Jaffna

The LTTE has also admitted in recent statements that they lost territory to the advancing army but say they will keep up a guerrilla war to establish a separate state called Eelam in Sri Lanka's north east.

Gone from Jaffna are the larger than life colour portraits of the Tiger "martyrs", including their suicide bombers, who were venerated by the rebels as well as their sympathisers, who lit coconut oil lamps and placed red and yellow garlands on them every day.

The police and kangaroo courts built up by the Tigers are no more. Motorists have abandoned number plates issued by the Tigers and replaced them with the old government registration plates.

The Tigers had earlier instructed civil servants on the government payroll to take orders from them while government food shipments sent

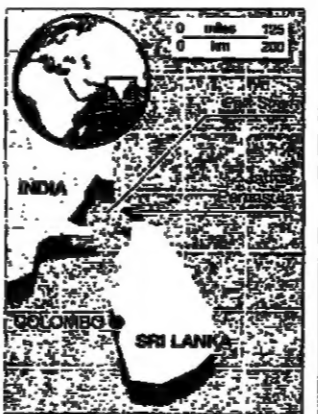
to the embattled region were taken over by the guerrillas, who sold them.

Jaffna's top civil servant, Chelliah Pathmanathan, denies he took orders from the Tiger leadership, although President Chandrika Kumaratunga has often described him as a hostage of the rebels.

He said \$10m had been allocated by the government for urgent humanitarian operations in the region, where more than half the population has returned to homes damaged by years of fighting.

An elderly woman, Naguleswari Periyathambiy, sat cooped with a cow and calf in a two-wheel tractor-trailer packed with white plastic bags of cattle feed, red rice and a box of clothes and sweets the end of army clearance.

"People are not interested in Eelam," Mrs Periyathambiy said. "All we want to do is live



in peace and see that our children go back to school."

Teachers, medical staff and other government employees were returning to work and most of the public utilities could be restored early, Mr Pathmanathan said.

"Shelter is the main problem at the moment," he said, adding that more centres were being set up to distribute food to some 300,000 people who have already returned to the area.

The government minister responsible for rehabilitation, Mr Nimal Siripala de Silva, admits that there are bottlenecks in sending supplies to the region because land routes to Jaffna are still blocked by the Tigers.

"If we have road access to Jaffna, we can turn the place around in two weeks," Mr de Silva said as the government airlifted carpenters and masons to begin urgent repairs to the Jaffna hospital.

The reconstruction of Jaffna would make a huge contribution to Sri Lanka's economic recovery. Virtually all sectors have been severely hit by the war, which has claimed more than 50,000 lives in the past two decades, with the country's defence budget taking up about a fifth of government spending.

ASIA-PACIFIC NEWS DIGEST

New Malaysia futures exchange

Malaysia has signalled its determination to develop as a regional financial hub rivaling Hong Kong and Singapore by granting an operating licence for the country's second financial futures exchange.

The Malaysia Monetary Exchange (MME), which will open later this month, will trade interest rate and currency futures. Its opening has been delayed by several months as officials weighed the broader fall-out of the Barings bank collapse. The British bank got into difficulties in February 1995 after the trader Nick Leeson ran up losses of \$836m (£549m) in derivatives trading on the Singapore International Monetary Exchange.

The new house will also provide a much-needed domestic mechanism for hedging against currency and interest rate fluctuations in a manufacturing economy which imports more than it exports. "We are talking about the education of an economy in how derivatives markets work. Trading volume is not going to take off for a while but the lessons learned [from this exercise] will stand the wider economy in good stead," said a foreign adviser to the MME.

The MME's official opening is tentatively scheduled for May 28, when its first contract based on the three-month Kuala Lumpur Interbank Offered Rate (KLIBOR) is due to be launched.

In a separate markets development, a local securities house has announced that it will set up an "Islamic index" comprising the stocks of 179 companies which are listed on the Kuala Lumpur Stock Exchange but which do not profit from activities at odds with Islamic principles. The RHB Islamic index, conceived by Rashid Hussain Securities, does not include companies which run casinos, sell alcohol or earn money from charging interest. The securities house hopes the index will help Malaysia's Muslims in forming Islamic investment portfolios. Malaysia is a predominantly Muslim country.

James Kyng, Kuala Lumpur

Malaysian health authorities yesterday issued a cholera alert and closed 11 restaurants on Penang Island, where 32 people have been taken to hospital with the disease. Penang, off Malaysia's north-western coast, is a leading tourist destination and a centre for electronics companies.

AP, Kuala Lumpur

Telstra sell-off study starts

A feasibility study into the part-privatisation of Telstra, Australia's biggest telecoms group, has begun, Mr Frank Blount, chief executive, said yesterday. Telstra is at present wholly owned by the federal government, but the new conservative coalition has pledged to sell off one-third of its equity during the present three-year parliamentary term. Mr Blount said he expected the study, being undertaken in conjunction with CS First Boston, to take several weeks or months to complete. Legislation to permit part-privatisation of Telstra has been introduced into parliament, but faces a stormy ride in the Senate, parliament's upper house, where the coalition does not have a majority. Labor and the Australian Democrats, the most significant of the minor parties, have said they will vote against the legislation, leaving its passage dependent on the views of one independent and two Green party senators.

Nikki Tait, Sydney

Court order to Japan sect chief

A Tokyo court yesterday ordered Aum Shinrikyo leader Shoko Asahara (left) to pay nearly ¥100m (\$823,000) in damages to the parents of an Aum follower who died during religious training at the cult's facility west of Tokyo. The parents of Teruyuki Mashima, then 25, had demanded the damages payment, saying their son was beaten to death by a number of cult followers on orders from Asahara at the facility in Fujinomiya, Shizuoka Prefecture, in September 1988. Neither Asahara nor his lawyers appeared in the court during hearings into the case.

Asahara, 41, and many of his followers have been charged with murder and various other counts over a series of crimes. Among them are nerve gas attacks against Tokyo subways in March last year and against residents in Matsumoto, Nagano Prefecture, central Japan, in June 1994.

Kyodo, Tokyo

INTERNATIONAL ECONOMIC INDICATORS: PRODUCTION AND EMPLOYMENT

Yearly data for retail sales volume and industrial production plus all data for the vacancy rate indicator are in index form with 1985=100. Quarterly and monthly data for retail sales and industrial production show the percentage change over the corresponding period in the previous year, and are positive unless otherwise stated. The unemployment rate is shown as a percentage of the total labour force. Figures for the composite leading indicator are end-period values.

UNITED STATES					JAPAN					GERMANY				
Year	Retail sales volume	Industrial production	Unemployment rate	Composite leading indicator	Year	Retail sales volume	Industrial production	Unemployment rate	Composite leading indicator	Year	Retail sales volume	Industrial production	Unemployment rate	Composite leading indicator
1995	100.0	100.0	7.1	100.0	1995	100.0	100.0	2.8	100.0	1995	100.0	100.0	7.1	100.0
1996	105.5	100.9	6.9	98.4	1996	109.7	99.7	2.8	94.3	1996	103.4	102.2	6.4	136.9
1997	108.4	106.0	6.1	104.2	1997	113.8	103.1	2.8	108.3	1997	107.4	102.2	6.2	140.5
1998	112.5	110.7	5.4	104.9	1998	122.6	113.1	2.5	136.9	1998	110.6	106.3	6.2	140.5
1999	115.4	112.4	5.2	97.9	1999	132.5	119.7	2.2	147.0	1999	114.2	111.4	5.6	216.5
2000	116.2	112.4	5.5	82.7	2000	141.7	124.5	2.1	149.8	2000	123.5	117.2	4.6	261.9
2001	113.5	110.4	6.6	61.7	2001	144.6	126.8	2.1	144.2	2001	130.5	117.9	4.2	297.9
2002	117.2	114.2	7.4	61.8	2002	139.9	118.0	2.1	124.2	2002	127.7	116.5	4.6	267.9
2003	121.4	118.2	6.8	67.7	2003	131.8	113.6	2.5	106.6	2003	122.3	109.2	6.1	229.0
2004	130.9	125.1	8.0	79.0	2004	129.6	114.5	2.9	102.2	2004	120.4	113.9	6.8	240.4
2005	136.1	129.3	5.5	79.1	2005	128.6	119.3	3.1	105.5	2005	114.2	114.2	6.0	267.9
2nd qtr.1995	4.2	3.3	5.6	77.4	2nd qtr.1995	-0.8	4.9	3.1	104.9	2nd qtr.1995	1.7	6.8	276.3	101.9
3rd qtr.1995	4.5	3.0	5.6	78.8	3rd qtr.1995	0.5	0.9	3.2	105.1	3rd qtr.1995	-0.1	2.8	285.5	100.6
4th qtr.1995	2.9	1.8	5.5	79.4	4th qtr.1995	-0.3	1.2	3.3	109.9	4th qtr.1995	-3.7	2.5	258.0	100.9
1st qtr.1996	1.3	1.3	7.4	78.4	1st qtr.1996	1.2	3.3	109.9	109.5	1st qtr.1996	-2.4	2.7	273.8	
April 1995	3.1	3.9	5.6	80.7	April 1995	-1.5	6.0	3.1	104.0	April 1995	1.6	6.8	279.7	102.0
May	4.7	3.9	5.9	79.3	May	-0.7	9.7	2.6	94.3	May	2.9	8.8	277.2	103.1
June	4.9	2.8	5.5	78.2	June	-0.3	3.2	3.2	104.5	June	4.7	6.6	272.9	101.9
July	4.8	2.7	5.6	78.8	July	-0.9	1.3	3.2	104.2	July	1.0	6.8	270.5	101.1
August	4.5	3.2	5.6	78.9	August	0.7	1.0	3.2	105.8	August	-0.2	2.8	264.0	100.6
September	4.2	3.1	5.6	77.8	September	1.8	0.5	3.2	105.4	September	-1.1	2.1	261.3	100.8
October	2.1	1.9	6.4	78.6	October	-1.1	1.4	3.2	106.1	October	-1.1	2.1	259.0	100.6
November	3.1	1.7	5.6	78.9	November	1.3	0.7	3.4	109.6	November	-2.7	2.1	261.3	100.6
December	3.5	1.1	5.5	82.2	December	-1.1	1.5	3.4	111.2	December	-4.9	2.8	234.6	100.9
January 1996	2.0	0.6	5.7	79.8	January 1996	5.6	2.8	3.3	109.6	January 1996	-6.0	2.5	264.6	100.6
February	4.0	2.0	5.5	79.5	February	3.3	3.3	114.6	110.2	February	-1.7	2.8	266.3	100.3
March	1.3	1.3	7.3	79.3	March	-2.5				March				

FRANCE					ITALY					UNITED KINGDOM				
Year	Retail sales volume	Industrial production	Unemployment rate	Composite leading indicator	Year	Retail sales volume	Industrial production	Unemployment rate	Composite leading indicator	Year	Retail sales volume	Industrial production	Unemployment rate	Composite leading indicator
1995	100.0	100.0	10.3	100.0	1995	100.0	100.0	9.6	86.3	1995	100.0	100.0	11.2	100.0
1996	102.4	101.1	10.4	107.0	1996	106.8	104.1	10.4	94.4	1996	103.3	102.5	11.2	111.8
1997	105.5	103.1	10.5	117.2	1997	112.1	106.8	10.9	86.0	1997	108.8	106.5	10.3	141.0
1998	107.9	107.3	10.0	135.3	1998	101.1	114.2	9.9	94.2	1998	117.8	111.6	8.8	144.0
1999	109.5	111.3	9.4	180.8	1999	116.9	118.7	10.3	98.5	1999	120.1	114.0	7.2	124.3
2000	110.4	112.8	9.9	183.2	2000	114.5	118.0	10.3	95.3	2000	121.1	113.7	6.8	97.8
2001	110.3	111.4	8.4	128.2	2001	110.9	116.9	9.8	97.1	2001	119.4	103.5	8.8	82.6
2002	110.5	110.0	10.4	108.5	2002	115.8	118.8	9.8	94.3	2002	124.4	108.4	10.1	69.6
2003	110.7	105.8	11.7	90.0	2003	114.1	113.0	10.2	101.1	2003	111.5	104.1	10.4	104.5
2004	110.7	110.0	12.3	104.1	2004	107.4	119.5	11.1	103.1	2004	128.5	117.2	9.5	93.9
2005	110.5	111.8	11.8	99.1	2005	102.3	127.2	10.9	101.9	2005	129.9	120.0	8.7	109.8
2nd qtr.1995	1.2	3.1	11.8	101.9	2nd qtr.1995	-4.5	6.1	12.2	102.0	2nd qtr.1995	1.4	2.3	8.8	105.4
3rd qtr.1995	0.2	0.3	11.5	96.6	3rd qtr.1995	-3.4	5.8	12.1	102.3	3rd qtr.1995	0.5	1.6	8.7	109.2
4th qtr.1995	-2.5	-0.2	11.8	98.1	4th qtr.1995	-7.8	4.7		101.9	4th qtr.1995	1.2	1.6	8.6	111.8
1st qtr.1996					1st qtr.1996					1st qtr.1996	5.1	1.0	11.5	
April 1995	0.4	2.4	11.6	102.7	April 1995	-2.1	5.1	n.a.	101.5	April 1995	1.8	2.9	8.8	107.2
May	2.6	3.2	11.8	102.4	May	-6.3	7.4	n.a.	101.7	May	1.2	1.9	8.8	106.2
June	0.5	3.7	11.8	101.9	June	-5.0	5.7	n.a.	102.0	June	1.2	1.9	8.8	106.0
July	1.8	0.8	11.5	101.5	July	-3.5	4.3	n.a.	102.7	July	1.2	2.3	8.8	106.2
August	-0.3	0.8	11.5	100.8	August	-1.6	8.2	n.a.	102.9	August	0.9	1.8	8.8	106.2
September	-0.9	-0.6	11.5	99.5	September	-6.2	5.0	n.a.	102.3	September	0.4	1.2	8.7	107.7
October	-3.9	-1.5	11.6	98.1	October	-18.0	4.4	n.a.	101.4	October	-0.1	1.3	8.7	113.9
November	0.4	-2.3	11.8	99.9	November	-0.9	4.3	n.a.	101.3	November	0.6	1.2	8.8	112.9
December	-6.1	-2.4	11.7	98.1	December	-10.8	0.8	n.a.	101.9	December	0.8	1.2	8.8	112.9
January 1996	0.3	-0.7	11.8	99.9	January 1996	0.9	0.9	n.a.	102.1	January 1996	1.7	1.8	8.8	112.8
February	2.2	1.2	11.8	100.9	February	-1.5	0.5	n.a.		February	2.2	1.2	8.4	109.8
March					March	-1.5	0.5	n.a.		March	2.1	1.2	8.4	114.3

Value creation shows British companies outperforming French and Germans

Judgment of company 'success' shifts focus

By Philip Coggan, Markets Editor

Successful UK companies tend to have a focused business strategy and significant shareholdings by management, according to a study by academics at Templeton College, Oxford.

However, several well known companies are shown in the study to have delivered poor returns over the long term, including British Aerospace, British Steel and Hanson.

The study, written by the college's fellow in finance, Dr Rory Knight, uses the concept of value creation to judge companies. It compares the amount of capital raised by companies in the form of equity, debt and retained earnings with the company's current market value, in the form of both equity and debt.

Previous studies, in the US and UK, have used the arithmetic difference between the capital raised and the current value as their key criterion, a measure which favours very large companies. The Temple-

ton study uses the ratio between the two, called the value creation quotient (VCQ); a company which had raised £100m (£152m) but now has a market value of £200m would have a VCQ of 2.

This makes a significant difference. Shell, which has added the second most value in nominal terms (£13.19bn), has a VCQ of just 1.34 and ranks 394th out of 500 in the listings. Small companies dominate the top of the table, although two FT-SE 100 index constituents, Vodafone and Reuters, feature in the top 10. As the table shows, the leading company, DFS Furniture, has turned every £1 raised as equity or debt into £14.30 of market value.

DFS was founded by Sir Graham Kirkham in 1969 and both manufactures and retails furniture. Although Sir Graham has sold a substantial proportion of his holding, he and his family retain 30 per cent of the equity. Templeton says that the best 10 companies have some similarities. They have "focused business strategies" and are

not conglomerates; none have been "re-engineered"; all have significant share participation schemes; and in five cases, directors have shareholdings of more than 15 per cent.

In contrast, conglomerates do not come out so well, with Trafalgar House languishing at the bottom of the list (which was compiled before the bid from Norwegian group Kværner) and Berisford, Hanson and Lounho among the worst 100.

Among the worst performers, British Steel and British Aerospace, by this measure, have turned every £1 of capital they have raised into less than £1 of value, each has "lost" more than £1bn of capital.

The worst sectors of all, in terms of value creation, are water and building contractors, while the best are health care and pharmaceuticals.

Templeton has also compared the value creation record of the largest British companies, relative to those in France and Germany. "On average, the British firms are outperforming the French very slightly, who are in turn out-

Best and worst long-run performers

	VCQ*	MVA(£m)*	REV (£m)*
TOP TEN			
1 DFS Furniture	14.3	290.84	14.12
2 Capital Radio	10.56	311.1	14.79
3 Carpetright	9.44	178.1	14.03
4 Dominick Hunter	8.77	72.8	4.75
5 Phoenixlink	7.36	74.53	4.36
6 M.L. Laboratories	6.92	163.78	6.94
7 Magnam Power	6.23	65.46	3.64
8 Vodafone	6.23	5,238.76	212.1
9 Reuters Holdings	6.13	6,578.37	377.16
10 Abbott Group	5.97	52.07	-8.0
BOTTOM TEN			
491 British Steel	0.75	-1,153.0	-156.19
492 Yorkshire Water	0.75	-514.02	-23.7
493 Finlay Homes	0.75	-56.55	-14.89
494 McAuliffe (Aired)	0.73	-78.95	-5.44
495 British Aerospace	0.72	-1,354.0	-253.61
496 McDonald Info	0.69	-45.28	-16.0
497 Anglo Group	0.69	-142.22	-42.84
498 Bardon Group	0.69	-199.37	-51.82
499 Daily Mail & General	0.48	-396.2	-8.8
500 Trafalgar House	0.47	-1,174.7	-318.36

*VCQ: value creation quotient; MVA: market value added; REV: retained earnings value. Source: Templeton College, Oxford

performing the German firms across the board," the report says. This probably reflects the Anglo-Saxon preoccupation with shareholder value. The table also shows what Templeton refers to as "realised economic value" (REV). This compares a business's cashflow after taxes with its weighted average cost of capital (allowing for both debt and equity). Of the 500 large companies surveyed, 174 are not earning enough to cover their cost of capital.

Templeton says research has

suggested that REV is a better indicator of future value than earnings per share, sales growth and pure cash flow. Companies with negative REV's, says Dr Knight, "should consider whether they want to make further investments in the lines of business they're in. It is a serious management issue whether they should be retaining cashflow rather than paying out dividends."

Value Creation among Britain's top 500 companies. Dr Rory F Knight, Templeton College, Oxford. 01865 735422, E55.

Budget assumes EMU in 1999

By John Kampfar, Chief Political Correspondent

The government is preparing Budget plans on the assumption that European monetary union will go ahead in 1999 as planned amid concern that its possible effects on sterling could further limit scope for tax cuts.

As the governing Conservative party reacted angrily yesterday to warnings by Mr Kenneth Clarke, the chancellor of the exchequer, that he may not be able to deliver significant cuts, ministers believe the financial markets will be especially susceptible to signs of fiscal irresponsibility in the run-up to a single currency.

Conservative backbenchers fear a shortfall in revenues, which has led to borrowing running above this year's forecast of £22.5bn (£34.20bn), could destroy chances of a tax-cutting Budget, seen by many as vital to the party's slim election prospects.

The acknowledgment that further financial prudence will be required to protect the pound as EU member states prepare for a new exchange rate mechanism by the end of the year will alarm Tory Eurosceptics. It appears to run counter to the prime minister's strongly held view that a single currency will not be in place by 1999 and will not affect the party's general election strategy.

However, the Irish government, which takes over the EU presidency in July, believes the ERM plans, which envisage a significantly stronger role for a European central bank, will be in place by December.

The British have made clear they will not take part in any revived ERM or in the single currency if it is operational in 1999.

Ministers will be warned during the forthcoming public spending negotiations that revenue shortfalls and the single currency concerns will require greater cuts than envisaged if scope for tax cuts is to be found.

UK NEWS DIGEST

Settlement offer 'inherently unfair'

LLOYD'S The Paying Names' Action Group, formed by Lloyd's of London investors to represent those who have paid their losses at the insurance market, yesterday said the latest settlement offer was inherently unfair and "needs to be addressed urgently". Mr Tony Welford, chairman of the group said Names (individuals whose assets have traditionally supported Lloyd's) should vote against the final settlement, which was unveiled last week. In a letter to Lloyd's the group said: "We note the contents of Lloyd's press release of May 10 and ask how this improves the position of loyal Lloyd's Names who have incurred substantial external debts to continue to support Lloyd's." The group claims to represent 25 per cent of the market's present underwriting capacity.

Meanwhile administrators to the insolvent Kewell insurance companies, subsidiaries of the failed London United Investments, are to set aside a further £200m for creditors, bringing the total so far to £820m. The Kewell companies, which specialised in US casualty, professional indemnity and other liability business, have gross liabilities of about \$9.7bn. The companies went into provisional liquidation in 1992.

Jim Kelly, Accountancy Correspondent

Airport passenger numbers rise

Passenger numbers at leading UK airports increased 1.9 per cent last month compared with the April 1995 figure. It was announced yesterday. A total of 7.6m passengers passed through BAA's seven British airports.

The timing of Easter this year meant much of the pre-Easter traffic was pushed into March. This meant that there was a 9 per cent dip in European charter passenger numbers last month, while European scheduled traffic fell 1 per cent. But North Atlantic numbers rose 3 per cent last month and domestic and Irish routes had increases of 9 per cent. Taking the figures for March and April 1996 together, there was an increase of 6.3 per cent on the March-April 1995 totals.

Heathrow passenger numbers rose 1.4 per cent last month, while Gatwick was up 2.3 per cent. Stansted 39 per cent, Southampton 9 per cent and the three Scottish airports taken as a group also increased 9 per cent.

Meanwhile, a new carrier, World Airlines, took to the skies today. Operating BAe 146 jets, the airline is flying 44 flights a week between London City Airport and Amsterdam. PA News

Exchange data to be shared

The UK Treasury and the US Securities and Exchange Commission have agreed formally to share information about companies which are traded on stockmarkets in both countries. Under the accord, the SEC and the London Stock Exchange will notify one another if either regulator suspends or delists one of the 220 companies traded in both New York and London. The new arrangements, which the Treasury said secured better protection for investors, are largely a formalisation of existing co-operation between the exchanges.

Nicholas Denton, London

Call for handgun ban

The opposition Labour party yesterday called for a ban on handguns and a comprehensive tightening of restrictions on ownership of all firearms in the wake of the shooting of 16 primary school children in Dunblane, Scotland two months ago. In evidence to the inquiry into the massacre, Labour is suggesting a ban on handguns and rifles above .22 inch calibre, tighter certification rules for any gun and raising the age limit for ownership from 14 to at least 18. James Harding, London

British Gas 'furious' over price controls

By David Lascall, Resources Editor

British Gas yesterday rejected a pricing package that would cut domestic bills by 10 per cent a year.

The group threatened to force a monopoly inquiry if the package suggested by Ofgas, the industry regulator, was imposed on Transco, British Gas's pipeline arm.

A monopoly inquiry into the UK's gas transmission business loomed yesterday after a furious British Gas reaction to proposals for tougher price controls on Transco, its pipeline arm.

Mr Philip Rogerson, the executive deputy chairman of Transco, said the proposals from Ofgas, the industry regulator, would be devastating for the company's shareholders and

employees, and could put the safety of the UK's gas system at risk. Up to half of Transco's 20,000 workforce might have to be laid off.

He said Transco would be contesting Ofgas's measures and would force a reference to the Monopolies and Mergers Commission (MMC) if necessary.

Ms Clare Spottiswoode, the director-general of Ofgas, had proposed a new pricing formula for Transco which, she calculated, would reduce the average household gas bill by £30 (£45.60) a year, or 10 per cent, rising to £50 over five years.

There would also be substantial savings for industrial users. The charges levied by Transco, which has monopoly control of the UK gas pipeline system, account for 43 per cent

of the typical gas bill.

Ms Spottiswoode said the current price regime was "too generous" to shareholders, and needed to be adjusted to pass more benefits on to consumers.

Her proposals included marking down the value of Transco's assets from £17bn to \$9bn-£11bn, and reducing the rate of return they were allowed to earn.

Although she proposed to leave the pricing formula unchanged at the rate of inflation minus 5 per cent (RPI-X), there would also be tighter controls on Transco's operating expenditures and its capital spending plans, although full allowance would be made for spending on safety.

The proposals will now be subject to a period of consultation and review lasting 10 weeks. If Transco refuses to

accept Ofgas's final proposals,

Ms Spottiswoode would have to refer the matter to the MMC. Although she is not obliged to accept the MMC's recommendations, she said yesterday she would "stick closely" to what ever it said.

However, she warned Transco that, in provoking an MMC referral, it risked having an even stricter price regime than the one she was proposing. The new controls have to be in place by April next year.

Ms Spottiswoode's proposals were generally tougher than the market had been expecting, and British Gas's share price fell by 27p to 201p - more than 10 per cent - largely on fears that the price cuts could force a cut in British Gas's dividend.

The Gas Consumers Council said the regulator's proposals

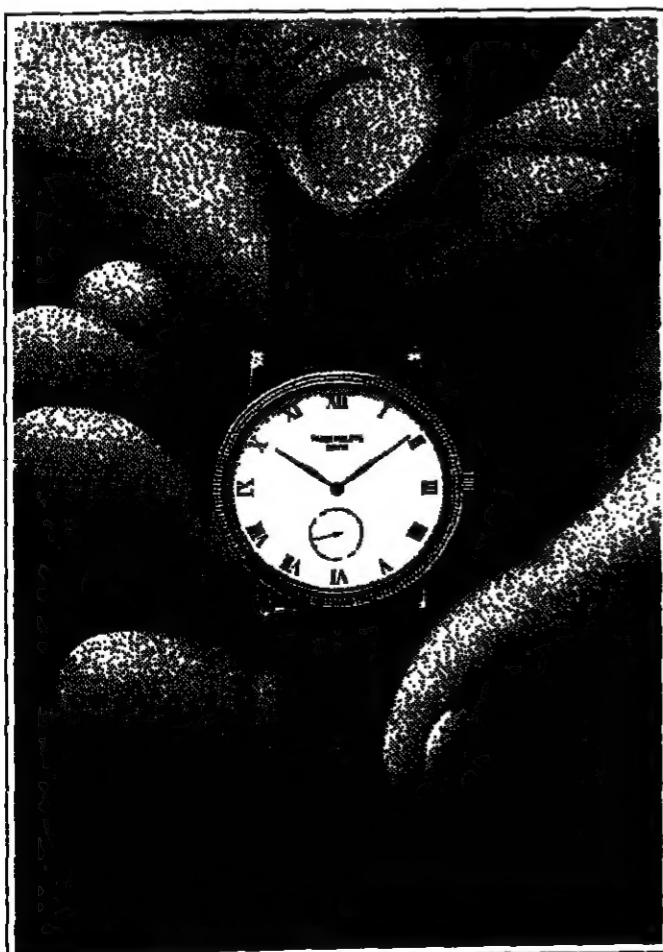
were "the best news since natural gas started coming ashore from the North Sea". Industrial users were also delighted with the move.

The 40 gas shipping companies which are Transco's direct customers were disappointed that Ofgas had not been even tougher on Transco. One of them said Transco had, by some estimates, made £2bn in excess profits in recent years which should be handed back to customers.

Transco is due to be demerged from British Gas next year. Mr Rogerson said the Ofgas proposals would not affect the demerger, although they reinforced the uncertainty in which the restructuring was going ahead.

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Lex, Page 14

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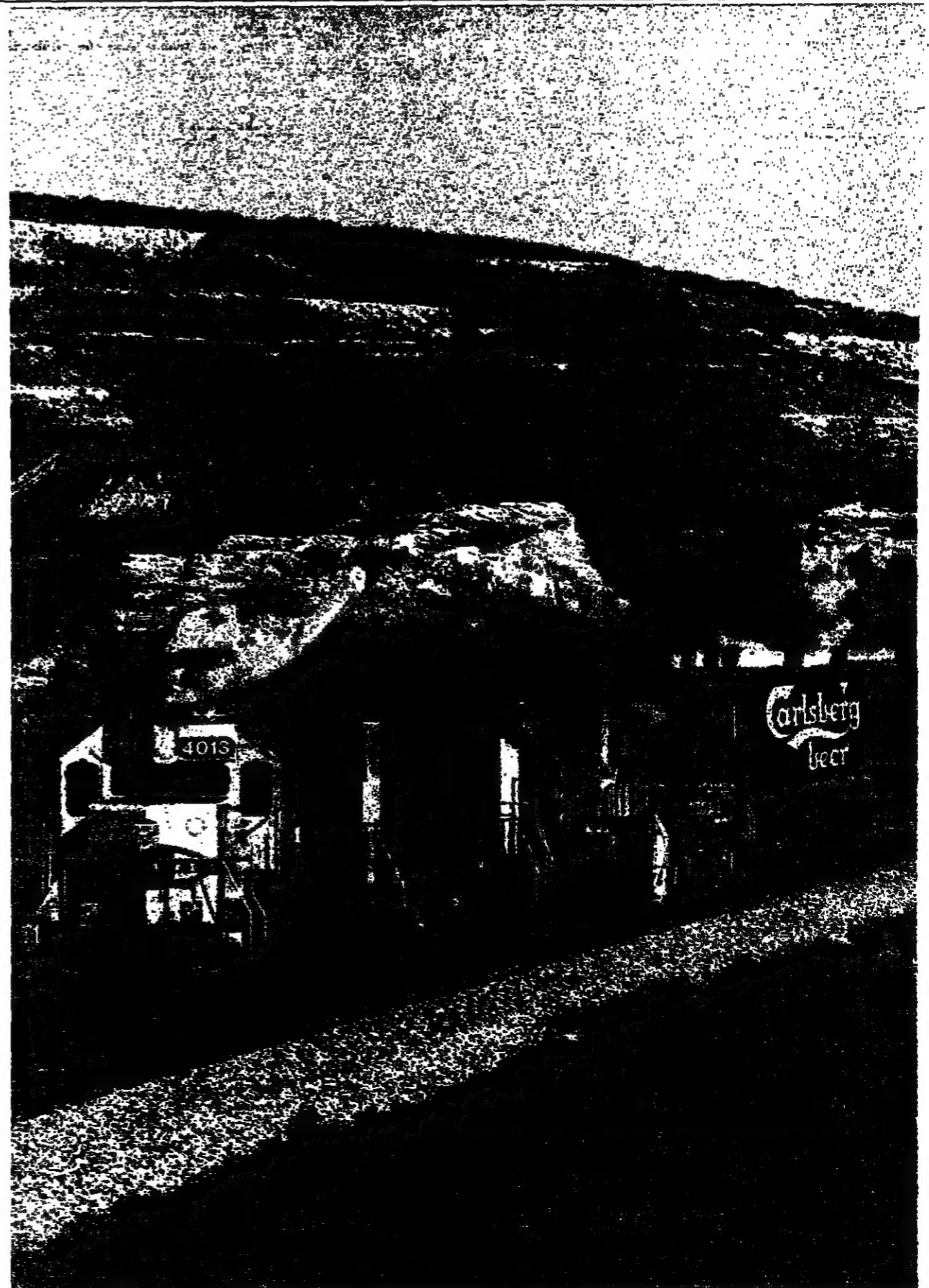


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NEWS: UK

Peugeot-Citroën signals expansion for British plant

By Haig Simonian and David Owen in Paris

Mr Jacques Calvet, head of Peugeot-Citroën, yesterday gave his strongest indication to date that the French car group would start building a second model at its Ryton plant in the English Midlands.

Mr Calvet said: "We have decided to associate Ryton with the development of one of our future models in which we are placing very, very,

very much hope... We always thought Ryton was capable of building two types of car."

The new investment in Ryton will improve Peugeot's chances of capturing more of the all-important UK fleet market. Moreover, Mr Calvet said it would demonstrate to Japanese manufacturers, which have invested heavily in new production capacity in the UK, that European manufacturers could continue to compete effectively.

Mr Calvet declined to specify which new model he had in mind. However, it is widely believed Ryton has been chosen to make the successor to the top-selling Peugeot 205 hatchback. This would require an investment of at least £100m (\$155m) in the antiquated Coventry plant.

Adding a second model to the 308 range manufactured at Ryton would raise output to more than 100,000 units from 80,000 last year. It would also guarantee Ryton's long-term

prospects. "The future of Ryton is assured," Mr Calvet said.

The Peugeot chairman gave no indication of when the second model would go into production. But analysts believe the group is working flat out to develop the new model and that it could enter production in two to three years.

Mr Calvet said Ryton had earned its place within the group as a result of the great strides it had made in productivity in recent years and for

demonstrating "team spirit". "Ryton is considered an essential part of our structure," he said.

The new investment will remove any lingering threat of closure over the plant which now employs 2,700 staff. Since it was bought by the group in 1978 there have been intermittent fears about Ryton's future.

Since mid-1994, output at the plant has increased by almost one-third to 2.75 vehicles a week, while the workforce has been whittled down.

Having a UK production base has helped Peugeot to lift its share of the UK car market from 1.5 per cent to more than 7 per cent in 1995.

The bulk of the new investment is expected to go on replacing the plant's paint shop, which is currently its biggest bottleneck. Additional money will be spent on new robots to improve productivity still further.

Valeo sale, Page 17

Manufacturers hit by input cost inflation

By Graham Bowley, Economics Staff

A big rise in oil and food prices caused the first increase in factory input cost inflation for a year last month, but manufacturers were still unable to pass the price rises on to their customers.

The price of goods leaving the factory gate rose at the slowest annual rate since December 1994 last month, the Office for National Statistics said yesterday. Manufacturers were again unable to raise prices in the face of a large build up of unsold goods and weak export demand.

Output price inflation climbed to a peak of 4.5 per cent last July as industry faced a sharp increase in raw material costs. But inflation has now fallen steadily since then as commodity prices have eased and manufacturers have been constrained by weak demand.

This slowdown in demand finally pushed manufacturing industry technically back into recession in March after output fell for two successive quarters.

Between March and April manufacturers' output prices rose 0.3 per cent to leave the annual inflation rate at 3.3 per cent, compared with 3.5 per cent in March.

This was despite signs of a resurgence in some commodity prices which led to the first rise in annual cost inflation since April last year.

Industry's fuel and raw material costs grew 1.4 per cent between March and April, the largest rise since December, and were 3.1 per cent higher than the same month last year. However, most of the monthly increase was due to a surge in oil prices, which economists said was unlikely to be sustained. Crude oil prices rose 9.5 per cent in April and were 25.8 per cent higher than the same month last year. Prices of imported food and chemicals also rose sharply.

Excluding food, drink, tobacco, and petroleum, the "core" measure of manufacturers' input costs fell 0.3 per cent between March and April – the first decline for more than two years. The "core" measure of output price inflation rose 2.8 per cent in the year to April, the lowest rate of inflation since November 1994.

The figures, which come ahead of the Bank of England's quarterly Inflation Report today, were stronger than the City of London expected.

But most economists were nevertheless encouraged by the further decline in output price inflation, the measure thought to have most influence on retail price inflation.

However, the pick up in consumer demand expected by the government and the City in the second half of this year may make it easier for manufacturers to pass on earlier input price rises to their customers.

Martin Wolf, Page 12

Diesel vehicle pollution limits exceeded

By Layla Boulton, Environment Correspondent

Britain regularly exceeds its own tough limits for particulate emissions from diesel vehicles which kill thousands of people a year but is unlikely to take action to fix the problem, a report said yesterday.

The report, by the Quality of Urban Air Review Group (Quarg), set up by the government, said that "stringent additional controls" on particulates were "essential" to reduce emissions in line with officially recommended targets.

It said diesel cars, trucks, and buses accounted for up to 80 per cent of emissions of PM10 – particles measuring up to one hundredth of a millimetre – in big cities, where the threat to health was greatest.

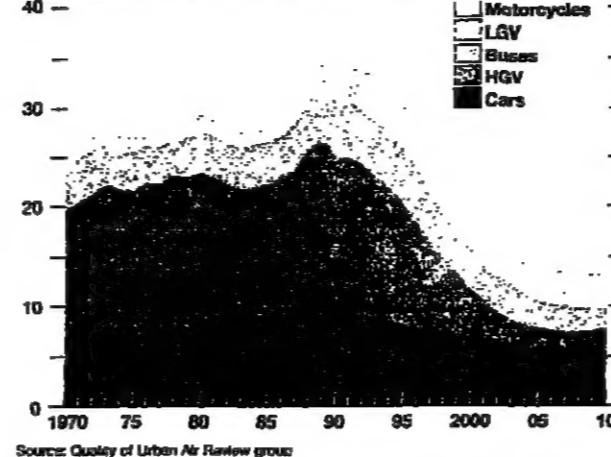
The government's recommended standard of 50 microgrammes per cubic metre of air on a 24-hour average was violated on 139 days from 1992 to 1994. It added that the only way of eradicating the problem would be to slash road traffic in big cities by 80 per cent.

However, after the government consultation paper on transport last month rejected targets for curbing air pollution, officials said radical measures to curb car use or reduce diesel vehicle numbers were unlikely.

The government is planning its hopes for a more modest alleviation of the problem – a 25 per cent reduction in particulate emissions by 2010 – on European Union curbs on car emissions, and changes in the design of car engines and the composition of fuel.

Particulate emissions take their toll

Urban road transport emissions of PM10, kilotonnes



Source: Quality of Urban Air Review group

estimates that several thousand elderly people's deaths are accelerated by the particulates, which worsen heart and respiratory conditions.

The government is expected to respond to the particulates threat in a national air quality strategy later this summer. However, after the government consultation paper on transport last month rejected targets for curbing air pollution,

officials said radical measures to curb car use or reduce diesel vehicle numbers were unlikely.

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'Green' tax system considered

The opposition Labour party is to consider a "green" overhaul of the tax system which would cut employers' National Insurance contributions and tax pollution to create jobs.

A report to be published next month by the Institute for Public Policy Research, an influential contributor to Labour policy, says cutting National Insurance contributions from a top rate of 10.2 per cent to around 3 per cent could create three quarters of a million jobs by 2005.

A host of compensating increases in environmentally

friendly taxation would help the environment without damaging tax revenues or industrial competitiveness.

The governing Conservative government has already taken a few steps in the direction of green taxation by introducing the landfill tax – with an offsetting decrease in national insurance contributions.

It has also mandated a 5 per cent annual increase in fuel duty to help combat global warming.

A shift in taxation away from labour and towards the environment is already under way in Scandinavia and under consideration in Germany.

The study of particulates has tended to lag behind that of other types of air pollution, but the latest recommendations by Quarg follow recent scientific evidence that the problem is more serious than initially thought. A detailed evaluation of a particularly severe bout of air particulate pollution in London in December 1991 showed a 10 per cent increase in mortality in the capital.

Shareholders approve Liffe merger with LCE

Financial Times Reporters

The shareholders of the London Commodity Exchange have formally approved the merger of the market with the larger London International Financial Futures and Options Exchange (Liffe).

The deal, which was originally announced in November

last year, is one of a number of mergers or link-ups between international derivatives exchanges, which are under growing pressures from members to focus their resources more effectively in an increasingly competitive market.

LCE, which lists futures contracts for coffee, sugar and cocoa, said its shareholders

had voted unanimously to bring to an end its 32 years of independent existence.

Changes to agricultural price support regimes in both North America and Europe, together with the growth of world production in commodities such as cocoa and sugar, are increasing the demand for commodity futures.

Liffe is offering LCE shareholders either cash or a combination of cash and a new class of Liffe shares for some 8m LCE shares at their net asset value. The LCE shares were worth some \$9.5m (\$14.4m) when the deal was agreed last year.

Liffe agreed a strategic link-up with both the Chicago

Board Of Trade and the Tokyo International Financial Futures Exchange (Tiffe) last year and expects to begin trading the Chicago market's financial contracts during the European morning later this year. Its own financial contracts will be traded in Chicago after the close of the London market.

Subsidy levels for BSE losses proposed

Financial Times Reporters

Mr Franz Fischler, European Union Commissioner for agriculture, will propose tomorrow that the EU pays farmers Ecu850m (\$799.5m) out of the 1996 budget to compensate for losses caused by the beef crisis.

Mr Fischler's proposal, which is expected to receive the backing of the full Commission at a meeting tomorrow, is designed to compensate farmers for a drop in beef prices, which have fallen on average by 5 per cent across the union since the crisis over the "mad cow" disease broke seven weeks ago.

The Commission's decision will coincide with a meeting of the EU's standing veterinary committee which will consider Mr Fischler's proposal that Britain should be forced to meet tougher conditions for the production of gelatin and tallow as a precondition to lifting the ban on these products.

Germany and Austria, remain opposed to easing the ban on British beef and beef products and the decision on the committee remains finely balanced, according to EU officials. The vote could hinge on whether France would support Mr Fischler's proposal, they added. Mr Hervé de Charette, the French foreign minister, said France wanted to help states overcome the difficulties caused by BSE but also wanted "maximum guarantees from the scientific committee".

EU officials said the cost of the subsidies proposed by Mr Fischler would be contained within the Common Agricultural Policy budget for 1996 as savings were being made in other areas, such as export restitutions.

One EU official said the subsidies had been calculated to compensate farmers for the drop in prices as well as falls in consumption, pointing out that farmers in Germany had suffered from a fall in prices as well as dramatic falls in consumption, while in the UK there were signs that greater quantities of meat were now being sold.

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IN BRIEF

JP Morgan sets out \$2bn plan for IT

J.P. Morgan is to farm out much of its routine information technology operations in one of the biggest outsourcing deals of its kind. The US bank said it had reached an agreement with a group of technology companies under which it will pay \$2bn over seven years. Page 19

Bondi defends Montedison structure
Mr Enrico Bondi, chief executive of Montedison has defended the structure of the Italian agribusiness, chemicals and energy group against a proposal that the company should be broken up. Page 16

Amerco and Accor sign pay-card deal
American Express of the US and Accor, the French-based hotels and leisure group, have signed an agreement covering a co-branded payment card, which will be launched later this year. The card is the latest in a series of co-operation deals American Express has concluded with other groups. Page 17

SIA up 11.7% despite setback
Singapore Airlines announced a healthy increase in group profit for 1995-96, but its core business suffered a decline in profits after being hit by rising fuel costs and stiff competition. Group net profit rose 11.7 per cent to \$61.03bn (US\$729.5m) in the year to March 31 1996, while revenues rose 5.1 per cent to \$86.86bn. Page 18

Beijing watches Hongkong Telecom
The Hong Kong arm of China's ministry of post and telecommunications said it was taking an active interest in developments concerning Hongkong Telecom, but remained guarded about whether the ministry was seeking a stake in the territory's dominant operator. Page 18

Fenner rises as profits surge 50%
Shares in Fenner rose 9p to 170p as the UK industrial products group reported a better-than-expected 50 per cent rise in interim pre-tax profits to \$8.2m (\$12.46m). Sales rose by a fifth to £126.3m in the six months to February 29. Page 20

Standard Life plans Bank of Scotland sale
Bank of Scotland's share price climbed 14p to 252 1/2p after Standard Life, the UK assurance group, said it was working on the sale of all or part of its 32.2 per cent stake in the bank. But bankers said the stake was more likely to be placed with UK institutional investors than sold to a potential predator, and doubted that the sale would trigger a bid. Page 21

Ladbroke ponders options for Hilton
Ladbroke, the leisure group which owns Hilton International, said talks were continuing with Hilton Hotels of the US on "a range of ways of re-uniting the Hilton brand." Options include a possible merger of the hotel activities. Page 21

Bell Cable loses up despite revenue rise
Bell Cablemedia, the UK's third largest cable operator, reported deeper losses and a sharp rise in income for the first quarter as it attracted more subscribers while building its network. Page 21

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Chief price changes yesterday				
FRANKFURT (DM)				
Rhine	532.5	+ 0.5	Paris Bourse	415 + 8.4
Deutsche	635	+ 22.5	Renault	149.9 + 4.35
Haniel	284	+ 5	Valeo	291.4 + 9.8
and Wette	119	+ 5	Pharmacia	35.15 + 4.2
Leipzig	202	+ 4.5	Geoprog	310 - 19
SAP AG	202	+ 4.5	Geoprog	310 - 19
Paoli	202	+ 4.5	Geoprog	310 - 19
Schweitzer Lob	273	- 7	TOKYO (Yen)	
NEW YORK (\$)				
Rhine	374	+ 3	Alco. Corp	405 + 25
US Logic	535	+ 3	Paoli	576 - 35
MEMC Inc	535	+ 3	Merck	576 - 35
Sterling Comm	594	+ 2	Merck	576 - 35
Verizon	594	+ 2	Merck	576 - 35
Paoli	594	+ 2	Merck	576 - 35
British Gas	304	- 4	Merck	576 - 35
Unilever	249	- 7	Merck	576 - 35
LONDON (pence)				
Rhine	337	+ 31	Merck	576 - 35
AM	410	+ 38	Merck	576 - 35
Harrolds (H)	533	+ 38	Merck	576 - 35
Telecom	533	+ 38	Merck	576 - 35
London Int	533	+ 38	Merck	576 - 35
Paoli	201	- 27	Merck	576 - 35
British Gas	25	- 8	Merck	576 - 35
Richardson	25	- 8	Merck	576 - 35
TORONTO (C\$)				
Rhine	25	+ 2	BANKING (Rate)	
Cher Pito B	52.1	+ 2.1	Swiss	123 + 8
Panama Gold	52.1	+ 2.1	Thailand	46 + 4
Toronto Fin	52.1	+ 2.1	Thai Fish	67.5 + 5
Paoli	12.2	- 0.8	Thai Fish	67.5 + 5
Carb Int	12.25	- 0.75	United Fruit	65.5 + 4.25
Metall Comms	12.25	- 0.75	United Fruit	65.5 + 4.25
Placid Steel	12.25	- 0.75	United Fruit	65.5 + 4.25
PAKIST (PKR)				
Rhine	565	+ 25	Suspension	53.5 - 5.6
Intercontinental	565	+ 25	Suspension	53.5 - 5.6

New York and Toronto prices at 12:30.

France to own less than half of Renault

By David Owen and
Hely Simonian in Paris

The French state is to sell a further 6 per cent of Renault, taking its stake in Europe's third-largest carmaker to below 50 per cent.

The symbolic and unexpected move, which would raise more than FF2.2bn (\$382m) at present market prices, is the second large privatisation launched in France this month.

It confirms an acceleration in the country's privatisation programme at a time when the Paris

stock market has been buoyant. However, analysts were yesterday generally downbeat in their interpretation of the announcement. "I see this as a negative sign - it shows the government feels unable to undertake a full-scale privatisation," one said.

Another analyst said shareholders were concerned that the culture of the group had not changed since its initial flotation in November 1994. The fact that the state was "crossing the Rubicon" of going below 50 per cent might at least make them think that change was in process.

The announcement, which came after the stock market closed, said the sale would be via an invitation to tender to be held shortly. It said the new shareholders would join the hardcore group of "partner shareholders" set up at the time of the company's initial flotation.

It emphasised that the move, which will reduce the state's stake to 46 per cent, was only a first step preceding a wider placing. It said it would allow Renault to reinforce its core shareholder base and give the company "the same capacity for

strategic manoeuvre" as its rivals. Analysts suggested, by contrast, the decision to sell only 6 per cent represented a tacit admission that a wider placing would be difficult in the short term.

The company's shares are trading below the FF165 issue price. Yesterday, they closed down FF0.90 at FF149.50. In March, Renault unveiled a surprise 41 per cent decline to FF12.14bn in 1995 net profits.

Yesterday's move raised questions about the future of the 11.4 per cent stake in Renault still

held by Volvo of Sweden following a failed attempt to merge the two companies. Analysts said Volvo would find it more difficult to sell at an acceptable price. "We have very clearly stated our intention to divest our holding, but we think today's share price is too low," said Mr Per Ljungqvist, a Volvo official.

The government last week began preparations to sell most of its 57 per cent stake in Assurances Générales de France, one of the largest French insurers. Peugeot chief toughens stance on Valeo sale, Page 17

It has a market capitalisation of \$32bn yet Cisco is barely known outside its industry

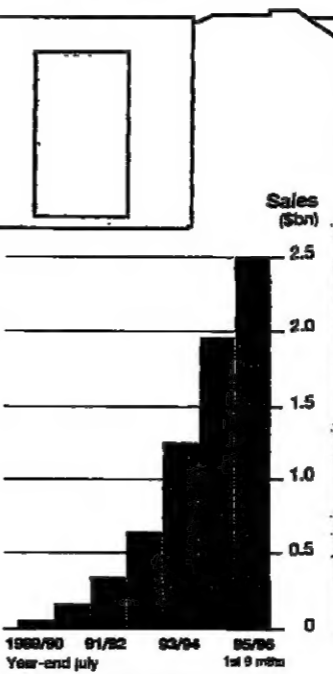
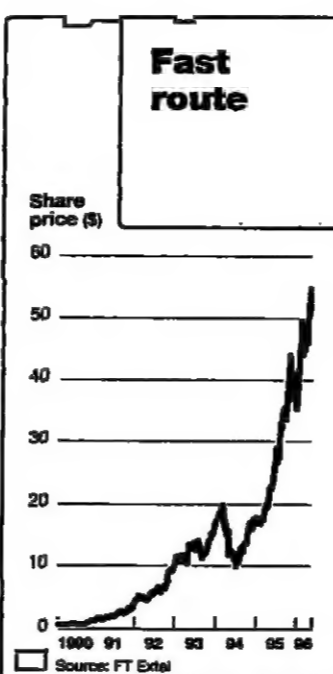
Providing the plumbing for the Internet

"There is no substitute for being in the right business at the right time," says Mr John Chambers, president and chief executive of Cisco Systems.

For Cisco, the right business is the exploding market for data networking equipment, and the time has been right for the past five years. As the leading supplier of equipment used to link the global Internet and corporate computer networks, Cisco has grown from annual revenues of \$183m in 1981 to almost \$2bn in fiscal 1996, ended July 30. Sales in the first three quarters of 1996, at \$2.5bn, have surpassed last year's total.

Quarter after quarter, Cisco has delighted Wall Street with higher than expected earnings growth. Third-quarter results, reported last week, were no exception. Net income for the period jumped 84 per cent to \$230m, or 39 cents a share, on sales of \$985m, a 93 per cent increase over the same period last year. Gross margins were 65 per cent of revenues.

Cisco's share price has climbed in unison with its earnings. Shares worth \$10,000 when the company went public in 1990, would now be worth more than \$800,000. With a market capitalisation of more than \$32bn, Cisco ranks behind only Intel and Microsoft on the Nasdaq.



However, Cisco is relatively little known outside the high-technology industry, perhaps because its products are complex and its technologies arcane. But Cisco has played every bit as important a role in the growth of Internet networking as companies such as Netscape Communications and Sun Microsystems, which get broader recognition.

Good fortune and good timing may have given Cisco a solid start, but the company's remarkable growth record is largely the result of astute management, according to industry analysts.

"One of the hallmarks of Cisco has been the strength of its management," says Mr Amar Senan, analyst at Volpe, Welby & Co. Mr Chambers, who became chief executive last year, is a veteran of Wang. He took on the job from Mr John Morgridge, now Cisco

chairman and previously of Honeywell, Stratus Computers and Grid Systems. Both executives have seen high-tech companies grow, only to falter. They are well aware of the danger of failing to keep pace with technology change, and the hubris that can blind a successful company to potential pitfalls.

In contrast, Cisco has been swift to adapt to new trends in the fast-changing field of networking technology. "We have no technology religion," says Mr Chambers. "We provide whatever technology the customer wants."

When Cisco's routers began to face competition from switches, an alternative approach to network control, for example, the company moved quickly to broaden its product line through acquisitions.

"Routers are to Cisco what mainframes are to IBM - both companies are the bellwethers in their respective markets and derive the bulk of their revenues from these products," says Mr Senan. "While IBM was slow to realise the impact of personal computers on its mainframe business, Cisco readily embraced switching."

Sales of local area network switches, used to speed up the delivery of data from one computer to another on an office network, represent about 30 per cent of Cisco's revenues and the company holds a 35-40 per cent share in a market that is expected to grow to about \$10bn by 1999.

Cisco's next step will be into the field of wide area network switching through its pending acquisition of StrataCom, in a stock swap valued at about \$4bn. StrataCom, another Silicon Valley company, is the leading producer of switching equipment for high-speed data networks.

The StrataCom purchase, which is expected to close in the current quarter, is the latest in a series of 10 acquisitions that Cisco has made over the past three years. "The conventional wisdom is that half of all acquisitions in the high-technology industry fail," he acknowledges, "but we feel we are reversing conventional wisdom."

Critical to the success of an acquisition, he says, is that it must produce a "short-term win." "In this industry we measure life in dog years. We cram seven years into every year... the pace is unbelievable. Unless a merger shows results very quickly, people lose interest."

While mergers and acquisitions usually lead to lay-offs, Cisco expects none. "We have 600 job openings and StrataCom has 100," says Mr Chambers. Keeping pace with the rapid growth of its markets is Cisco's biggest challenge.

Japanese groups to invest up to Y13bn in Paramount

By William Dawkins in Tokyo and
Alice Rawsthorn in London

Corporate Japan is shopping in Hollywood again. Marubeni, the trading company, and Toho, the largest Japanese film producer, have announced plans to invest in films produced by the Paramount movie studio.

The Japanese companies, which are already involved in a consortium behind *The Relic*, a thriller produced by Paramount and scheduled for release this summer, said they intended to invest up to Y13bn (\$125m) over the next three years in films produced by Paramount, a subsidiary of the Viacom entertainment group.

In return for their investment Marubeni and Toho, which produces the Japanese series of *Godzilla* films and owns the Toho-Towa film distribution company, will receive the Japanese distribution, broadcasting and video rights for the movies concerned.

The announcement from Marubeni and Toho follows a turbulent period for the first wave of Japanese investors in Hollywood. Sony, the consumer electronics company, paid \$3.4bn for the Columbia and TriStar studios six years ago: this was followed by Matsushita's \$6.1bn acquisition of the MCA entertainment group a year later. Last year the investments went sour when Sony wrote down the value of Columbia-TriStar - admitting that it had over-paid for the studios - and Matsushita sold control of MCA to Seagram, the Canadian

drinks group.

Marubeni, which has previously restricted its film funding to Japanese productions, and Toho are more cautious in their plans to liaise with Paramount. They intend to invest a maximum of Y1.5bn in each film, which are likely to have total budgets of Y4bn to Y6bn. Their investment will be divided equally between them.

The deal is intended to help Marubeni and Toho purchase the Japanese distribution rights to US movies which, according to Toho-Towa, have become almost prohibitively expensive. For Paramount, a liaison with Marubeni and Toho, would form part of the trend for US movie producers to find new sources of funding for increasingly costly productions.

T&N hit by asbestos appeal

By Tim Burt in London

T&N, the UK engineering group, yesterday admitted that attempts to cap its asbestos liabilities had suffered a setback in the US courts.

Shares in the former asbestos producer fell 12p to 183p.

Three US appeal judges have ruled that a so-called "Georgine" settlement - in which 20 asbestos companies agreed fixed compensation payments for asbestos victims - failed to meet the criteria of a class action.

T&N had hoped the settlement would reduce its exposure to personal injury claims in the US, where it has paid more than \$300m (\$453m) in legal settlements during the past 10 years.

However, judges on the US

appeal court's Third Circuit have decided that the companies failed to give adequate notice of the fixed compensation systems coming into force. Moreover, they ruled that the variety of compensation claims and different medical conditions among victims meant the systems would not constitute a class settlement.

The decision follows a six-month appeal by lawyers acting for personal injury claimants.

T&N described the ruling as a blow, but said the Center for Claims Resolution - representing the companies - would probably appeal. That could take up to six months and the case could end up before the Supreme Court.

When the class action was first agreed in 1994, T&N predicted it would lead to a gradual reduction

in asbestos-related provisions - which have undermined its profit growth in recent years. However, yesterday it said: "The rate of decline in new claims could slow over the next three years."

In 1994, the company made a surprise \$100m provision to meet claims from asbestos victims who opted out of the Georgine settlement. That led to asbestos-related charges of \$140m in 1994, falling to \$51.3m last year. T&N is expected to set aside a further \$50m this year and next. Despite the latest ruling, it said the provisions would provide more than enough cover for all existing claimants.

T&N has long regarded the asbestos legacy as a diversion from its ongoing engineering activities.

Spain to offer 10% of Repsol

By Tom Burns in Madrid

Spain's new centre-right government is to sell its 10 per cent stake in Repsol, the energy, gas and chemicals group, at the earliest opportunity.

The industry ministry also said yesterday that Endesa, the highly profitable electricity generator which is 66 per cent state-owned, would be privatised in a series of tranches as a single unit, thereby squashing market rumours that it would be broken up before disposal.

The statement, the first declaration of intent by the new government of its privatisation policy, said the creation of a privatisation office was under consideration in order to channel the sale of state-owned equity.

The sale of Repsol shares, via a market placement, cannot take place before February next year, according to the 12-month lock-out period that was written into the offer document last February when the government globally offered 11 per cent of its stake in the energy company. That disposal, which was strongly oversubscribed, raised \$1.1m.

Along with the sale of Repsol, the government said it would sell the 3 per cent stake it holds in Gas Natural, the major domestic gas distributor which is 45 per cent owned by Repsol.

Endesa, which has consistently shown double-digit earnings growth, could in theory tap the markets ahead of Repsol.

In an indication that the government believed Endesa to be worth more than the sum of its parts, the statement discounted expectations that the parent company would sell off separately the stakes that Endesa holds in private sector utilities, notably a controlling shareholding in Sevillana de Electricidad, the generator serving southern Spain.

The statement said that over the next four years the government intended to pull out of companies in other industrial sectors. These would include the state-owned, and strongly state-subsidised, international airline Iberia and the domestic carrier Aviaero. However, various privatisation procedures could be employed for projected disposals.

A series of other blue-chip Spanish companies such as Telefonica, the telecoms operator, and Argenta, the banking group, are controlled by the finance ministry and are therefore subject to a separate decision making process.

Results, Page 16

Sheffield Forgemasters

£70,000,000 Secondary Buy-Out

New equity led and structured by
NatWest Ventures

Institutional equity provided by
NatWest Ventures **Schroder Ventures**

Senior debt facility provided by
Bank of Scotland

NATWEST VENTURES

NatWest Ventures Limited, regulated by IMRO, is part of NatWest Markets corporate and investment banking.

COMPANIES AND FINANCE: EUROPE

Repsol boosts first-quarter profits by 8%

By Tom Burns in Madrid

Repsol, the Spanish oil, gas and chemicals group which is a candidate for full privatisation, lifted its first-quarter net profits after minorities by 8 per cent to Ptas35.4bn (\$277.9m), in line with estimates.

The group said it would propose a total gross dividend of Pta171 a share, 22 per cent up on last year's payment.

Sharply depressed income from its chemical division, and the strength of the peseta, which hit the group's activities

across the board, were offset by increased Brent crude oil prices and higher international refining margins.

The three-month result follows significant changes in Repsol's shareholding structure, and comes at a time of considerable speculation over a top-level shake-up for the group following the formation of a new centre-right government this month.

Mr Oscar Fanjul, the energetic chairman who has built up Repsol's profile since the 1980s and engineered a series

of successful disposals of government-held equity in the group, was appointed by the previous Socialist party administration. He could now be forced to stand down in favour of a new chief executive nominated by the ruling Popular party.

Although Mr Fanjul has consistently advocated the sell-off of state-held equity - Sepi, the industry ministry's holding company, in February reduced its 21 per cent stake in Repsol to 10 per cent - the new government is likely to seek some-

body associated with the Popular party to complete the privatisation process.

The possible changeover is viewed with some trepidation by analysts, who have admired Mr Fanjul's management style and the strategy he has mapped out. They say Mr Fanjul's removal could unsettle shareholders, such as US pension funds which together own 25 per cent of Repsol, and temporarily damage Repsol's share price.

Mr Fanjul appears to have the support of a hard core of

shareholders in the group formed by Banco Bilbao Vizcaya, the domestic banking group, Pemex, the Mexican oil group, and La Caixa, the dominant domestic savings bank. In the past two months La Caixa has spent some Ptas67bn on 5 per cent of Repsol, a similar stake to those held by BBV and by Pemex.

The government, however, remains the biggest individual shareholder though the 10 per cent owned by Sepi, and it continues to have the final word on who runs Repsol.

NEWS DIGEST

Skandia registers strong growth

Skandia, Sweden's biggest insurance group, more than doubled first-quarter profits, from SKr17bn a year ago to SKr35bn (\$51.8m). The increase was driven by improvements in life insurance and savings-linked operations. Mr Björn Wolrath, chief executive, said there had been a strong improvement in business in the UK and US compared with the same stage last year.

Non-life insurance and reinsurance premium income fell from SKr8bn to SKr7bn because of a US divestment and currency changes. Life and savings-linked premium income, however, jumped from SKr6.4bn to SKr7.7bn, to raise total premium income from SKr14.4bn to SKr24.7bn.

Hugh Connery, Stockholm

Allergan merger talks dropped

Talks on a \$2.5bn merger between Pharmacia & Upjohn and Allergan, the Californian eye and skin care products company, have been abandoned. Allergan said the talks had involved a possible share-for-share merger with a "pooling of interest" accounting treatment. It said the pooling treatment was "not feasible to Allergan", without elaborating.

Pharmacia & Upjohn, which refused to comment on the ending of talks, was formed in 1995 by a friendly merger of its Swedish and US parents. Mr John Zabriske, chief executive, has said that one of the advantages of the friendly merger was that the new company had not been saddled with debt and was therefore free to make acquisitions. But the company is in effect prevented from making significant disposals because of tax charges that would be triggered: the structure of the friendly merger avoided incurring goodwill and tax charges.

Daniel Green

Tryg-Baltica to raise Dkr2.5bn

Tryg-Baltica, which became Denmark's largest insurance company last year after acquiring most of the non-life assets of the Baltica group, is to sell 4m shares, about 20 per cent of its share capital. The shares, with a face value of Dkr20 each, will be offered for sale through the book-building method with an indicative price of Dkr265-Dkr300 which could raise up to Dkr2.5bn (\$425m). The offer will be open from May 20 to June 3.

Hilary Barnes, Copenhagen

Rain helps Spain's Iberdrola

Abundant rainfall helped Iberdrola, Spain's leading private-sector electricity utility, achieve a 14 per cent rise in first-quarter consolidated net profit to Ptas4.01bn (\$297m). The gain was partly due to a shift to cheap hydroelectric production, which rose 146 per cent on the same quarter last year, when Spain was still in the throes of a five-year drought. Group turnover rose 2 per cent to Ptas18.05bn.

The profit rise also reflected lower debt-servicing costs, with group debt declining by Ptas12.3bn from the Ptas14.73bn level at the end of last year. Pre-tax earnings were 20 per cent up at Ptas49.92bn, while operating profits were 18 per cent up at Ptas74.79bn.

David White, Madrid

AGF offer oversubscribed

The French ministry of finance indicated yesterday that the 38.6m shares of AGF, the French insurer, offered to investors was 150 per cent subscribed during the first week since the offer opened, with 90 per cent of the allocation taken by foreign institutions. The government has announced approval for the sale of most of its stake, representing 45 per cent of the equity.

Andrew Jack, Paris

Bondi defends Montedison structure

By Andrew Hill in Milan

The chief executive of Montedison yesterday defended the structure of the Italian agribusiness, chemicals and energy group against one important shareholder's proposal that the company should be broken up.

Mr Enrico Bondi, who is also chief executive of Ferruzzi Finanziaria (Ferruzzi), Montedison's largest shareholder, told a meeting of analysts that the group's structure "represented a well-balanced portfolio and offered numerous possibilities for expansion".

Montedison's shares rose nearly 3.5 per cent yesterday after the publication of leaked

extracts from a letter to Mr Luigi Lucchini, Montedison's chairman, from Mr Luca Padulli, an Italian financier who runs Codelouf & Co. Codelouf, a Gibraltar-registered fund, owns about 4 per cent of Montedison.

In the letter, Mr Padulli says a gradual break-up of Montedison into Edison, the quoted energy subsidiary, Eridania Béghin-Say, the Paris-quoted agribusiness group, and Antibiotico, the pharmaceuticals operation, would create more value for shareholders. The remaining chemicals and engineering operations would stay under Montedison's control.

Mr Padulli also criticised the fact that Ferruzzi owned only 32 per cent of Montedison but

management of the two were almost identical.

Mr Bondi said the decisions of recent Montedison shareholder meetings, and the 1993 restructuring plan aimed at rescuing Ferruzzi and Montedison from the aftermath of mismanagement and corruption, had gone "in the direction of preserving the existing group structure".

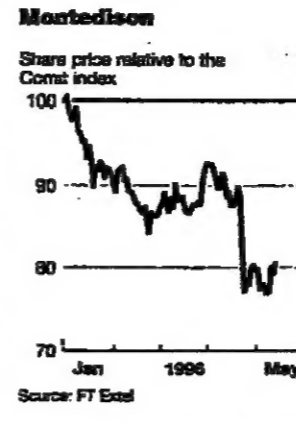
Yesterday's meeting and the Codelouf letter set the scene for what could be a stormy Montedison shareholder assembly on June 12 or 13.

Mr Massimo Fortuzzi, investment manager for Finanza & Futuro, a large Italian fund management group, warned Mr Bondi yesterday that uncertainty about last year's Super-

Gemina plan was still casting a "baleful shadow" over Montedison's share price. The plan aimed to merge Ferruzzi with Gemina, the Italian investment company. It was shelved last year after Gemina subsidiaries hit financial difficulties.

In reply, Mr Bondi said the SuperGemina plan would not be retailed, adding that there were no plans to merge Ferruzzi and Montedison.

Finanza & Futuro is controlled by Deutsche Bank and owns about 2 per cent of Montedison. Mr Fortuzzi and other fund managers have promised to speak out in annual meetings against those Italian companies which seem to withhold information or discriminate between shareholders.



Unibank to acquire ABB's stockbroking subsidiary

By Hilary Barnes in Copenhagen

Unibank, the Danish bank, is to acquire ABB Aros, the stockbroking subsidiary of Asea Brown Boveri, the large Swedish engineering group, to form a new Nordic investment bank.

Aros has subsidiaries in Sweden, Oslo, Helsinki and New York with a total staff of 104. Unibank plans to merge the Aros units into its own share trading, merger and acquisition and corporate finance operations to form a division with 225 staff.

This will put it in line with some of the other large Nordic broking companies, such as Alfred Berg and Carnegie. "The acquisition of Aros is an important step forward in the development of our Nordic strategy," said Mr Thoralf Krarup, Unibank chief executive.

"It is no secret that we took the initiative for this deal. Aros is the perfect fit for us, with its strength in equities trading in Sweden and Finland, while we are strong in Copenhagen and Oslo," said Mr Krarup. Unibank and ABB have agreed not to disclose any financial details concerning the sale of Aros.

Unibank yesterday announced a series of organisational changes designed to improve head-office efficiency.

One consolidates equities trading and research with equity issues and M&A business, including Aros. The unit will be managed by Mr Peter Lybecker, previously head of Unibank's finance department, and Mr Richard Montgomery, who until now has been business area manager for ABB's stockbroking and investment management activities.

Launch and start-up costs hit earnings at Ford-Werke

Ford-Werke, the German subsidiary of the second biggest US carmaker, has suffered a sharp fall in net profit, to DM270.5m (\$177.4m) in 1995 from DM678.2m a year earlier, reports AFX News from Cologne.

Mr Albert Caspers, chairman, blamed the decline on the cost of the company's product offensive. "In one year, we had to overcome the market launch and start-up costs of the Scorpio, Escort, Fiesta and Galaxy models, as well as the new Zetec-SE generation of engines," Mr Caspers said.

He said although the company largely offset these costs through higher volumes and cost-cutting, it was unable to further compensate for the negative effects of exchange rate fluctuations.

In the first four months of 1996, Ford Werke had sales of DM49.4bn, up from

DM8.8bn earlier. Unit sales in the period were 405,000, up 8.2 per cent from 371,000 a year earlier, with exports climbing 10.6 per cent to 260,000 from 226,000. Production slipped 3 per cent to 357,000 units from 368,000.

Ford-Werke said in its annual report that it expected higher sales and output in 1996 compared with 1995, when the it recorded unit sales of 1.04m and output of 988,524 vehicles. Mr Caspers said the company aimed to expand its market share in 1996. "After a promising start to the year, I am confident that we will achieve our 1996 targets," he added.

In the first four months, Ford-Werke raised its domestic car market share to 11.8 per cent from 11.7 per cent a year earlier. In 1995, it boosted domestic market share by 1.1 percentage points to 11.3 per cent.

KfW '95: Positive Promotional Balance



Performance 1995

- 80,000 commitments totalling more than DM 42.7 billion
- DM 27.2 billion in investment finance for the German economy, of which DM 16.9 billion was for the eastern Länder
- DM 13.5 billion for medium-sized enterprises, thus securing and creating 840,000 jobs
- DM 4.6 billion for the modernization and renovation of more than 600,000 homes in the new Länder
- DM 10.1 billion in export and project finance
- DM 5.3 billion for the promotion of developing countries
- Advisory Services for the transition countries of Central and Eastern Europe on behalf of the Federal Government

Key Figures of the 1995 Annual Accounts:

Balance sheet total	DM 249.8 billion
Loans and advances	DM 225.4 billion
Capital and reserves	DM 8.9 billion
Net income	DM 451 million
Employees	1,678

Promotional Programmes 1996

Current challenges in Germany - investment and jobs - are being met by KfW measures to enhance growth and increase employment.

- Venture capital (for innovative small and medium-sized enterprises)
- Liquidity aid loans to enterprises for bridging financial bottleneck situations
- Loan programme for municipal infrastructure measures - ranging from waste disposal and transport projects to water supply
- Loans for energy saving measures in residential buildings in the old Länder

KfW Kreditanstalt für Wiederaufbau

Palmengartenstrasse 5-9 • D-60325 Frankfurt am Main
Phone (69) 74 31-0 • Fax (69) 74 31-29 44
KfW, Branch Berlin
Charlottenstrasse 33/33a • D-10117 Berlin
Phone (30) 20 26 40 • Fax (30) 2 02 64-1 88

The Management Board of PLIVA d.d. at its meeting held on 9 May 1996 has convened a meeting of the

GENERAL ASSEMBLY of



to be held at 1 p.m. on 28 June 1996. PLIVA's registered office is at Ulica grada Vukovara 49, Zagreb, Croatia. The meeting of the General Assembly shall take place at Trg Stjepana Radića 4 (in the Concert Hall "Vatroslav Lisinski") Zagreb, Croatia.

AGENDA

1. Presentation of financial reports for the year 1995:
- (a) Report of the Management Board;
- (b) Report of the Supervisory Board.
2. Appropriation of profit for the year 1995.
3. Approval of the activities of the Management Board and the Supervisory Board.

DRAFT RESOLUTIONS TO BE DISCUSSED AT THE MEETING

The Management Board and the Supervisory Board of PLIVA d.d. propose to the General Assembly that the following resolutions be considered:

1. The reports for the year 1995 presented by the Management Board and the Supervisory Board be adopted.
2. The profit realised in the financial year 1995 in the amount of HRK 229,066,987.47 (after tax), shall be appropriated as follows as a dividend to relevant shareholders and as retained profit. The dividend to be distributed to relevant shareholders in the amount of HRK 114,500,000.00 (which equals HRK 235.50 per each share) has already been paid to the shareholders (on the register on 9 April 1996) as an interim dividend, and no other further dividend shall be paid in respect of 1995. The amount of HRK 114,566,987.47 shall be credited to reserves as a retained profit.
3. The acts of the Management Board and the Supervisory Board are approved.

CONDITIONS FOR PARTICIPATION AT THE MEETING OF THE GENERAL ASSEMBLY AND RIGHT TO VOTE

Shareholders of PLIVA d.d. shall be entitled to attend and vote at the General Assembly provided that:

- they deposit their Share Certificates until the end of the General Assembly with the Company's Share Office at Prilaz baruna Filipovica 25, Zagreb, Croatia by 18 June 1996 (the Share Office is open every business day excluding Saturdays from 9 a.m. till 1 p.m.), or with a public notary and deliver the relevant certificate of the public notary to the Company's Share Office in Zagreb, by 18 June 1996;
- they lodge their application for participation at the General Assembly with the Company's Share Office at Prilaz

baruna Filipovica 25, Zagreb, Croatia by 18 June 1996 at the latest. Forms of application are available from the office of PLIVA Limited at Hedges House, 153-155 Regent Street, London W1R 7FD, Great Britain.

Holders of Global Depository Receipts (GDRs) will have no voting rights with respect to the Deposited Shares (as defined in the terms and conditions endorsed on each GDR certificate). The Depository (Bankers Trust Company) will exercise any voting rights in respect of the Deposited Shares in accordance with Condition 12 of the GDRs. Shares which have been withdrawn from the depository facility and transferred on PLIVA's register of members to a person other than the Depository or its nominee may be voted by the holders thereof.

Shareholders are entitled to appoint proxies. Proxies need to be appointed by a valid power of attorney granted by the shareholder or in the case of a corporate shareholder a duly appointed representative in accordance with the provisions of Article 11 of the Articles of Association. Appointments of proxies need to be deposited with the Company's Share Office at Prilaz baruna Filipovica 25, Zagreb, Croatia by 18 June 1996. Forms of proxy are available from the Company's Share Office at the above address or from the offices of PLIVA Limited at Hedges House, 153-155 Regent Street, London W1R 7FD, Great Britain.

Copies of the reports referred to in item 1 of the Agenda can be obtained from the Company's Share Office at Prilaz baruna Filipovica 25, Zagreb, Croatia or the office of PLIVA Limited at Hedges House, 153-155 Regent Street, London W1R 7FD, Great Britain.

Copies of the service contracts of the members of the Management Board are available for inspection at PLIVA's registered office during normal business hours on any business day (excluding Saturdays) and will be at the place of the meeting of the General Assembly from 15 minutes prior to and during the meeting.

Should the meeting of the General Assembly of 28 June 1996 be postponed due to the lack of the quorum set out by the Articles of Association, the reconvened meeting shall be held at the same place at 1 p.m. on 12 July 1996.

Zagreb 9 May 1996
PLIVA d.d.
The Management Board

Peugeot chief toughens stance on Valeo sale

By David Owen and Haig Simonian in Paris

Mr Jacques Calvet, head of France's Peugeot-Citroën car group, yesterday hardened his threat to remove the company's business from Valeo, the French car components group, if it fell into foreign hands.

He said he was "completely decided" that he would not renew parts contracts with Valeo if it was bought by foreigners. "What worries me and other colleagues is to see one of France's big equipment makers pass into US control," he said.

His comments followed a renewed surge in Valeo's share price on the back of reports that two US companies were interested in buying it. The shares closed in Paris at FF291.40, up FF9.80, or 3.5 per cent. This compared with a fall of 0.66 per cent, to 2,100.85, in the benchmark CAC-40 index.

The reports suggested that Mr Carlo De Benedetti - who owns a strategic 27.7 per cent stake in Valeo through Cerus, his French holding company - had been approached by Delphi, the components arm of General Motors, and TRW, the big US aerospace and components group.

Neither company would confirm it was in negotiations

with the Italian industrialist. "There is really nothing we can say," said Ms Frédérique Le Grèves, a Delphi official. TRW said it did not comment on speculation.

Mr Calvet said his views were shared by Mr Louis Schweitzer, chairman of Renault - Peugeot-Citroën's arch rival, and Mr Ferdinand Piech, head of Germany's Volkswagen. Together the three companies account for more than 40 per cent of Valeo's sales.

"I don't know how you can buy a company in which clients accounting for 40 per cent of the sales say 'we will no longer work with you,'" he said.

Mr Calvet justified his hostility to a US takeover on the grounds this would lead to excessive US influence in the European motor industry.

"The Americans are in the process of taking a dominant position in Europe," he said.

In addition, he said, the relationship between carmakers and their suppliers had become increasingly close. This meant that mutual trust was indispensable. "It is very difficult to trust a company that is owned by a competitor," he said.

Mr Calvet said he wanted to find a French solution to the problem of Valeo's future. There were sure to be potential French buyers, he said.

BBV sets expansion sights on Mexico

By Tom Burns in Madrid

Banco Bilbao Vizcaya is preparing to concentrate its Latin American investment drive on Mexico after establishing a solid base in Peru, officials of the Spanish bank said in Madrid yesterday.

Mexico, where BBV controls Probrusa, the country's twelfth-largest banking concern, will be the chief target of funds totalling \$2bn over the next four years that BBV has earmarked for Latin America.

BBV followed up its \$111m purchase of Banco Continental in Peru last year with a \$350m investment in Probrusa, raising its stake from 20 per cent to 70 per cent. The \$2bn set aside by BBV for Latin America suggests that similar acquisitions are in the pipeline.

BBV is Spain's biggest financial institution in terms of stock market capitalisation, and its bullishness over Latin America is fuelled by the contributions that both Continental and Probrusa made to the impressive consolidated first-quarter profits it posted last month.

It raised its consolidated net profits by 19.3 per cent to \$157.5m against the first three months of 1995, and analysts believe BBV now has the balance sheet strength to step up its aggressive strategy in Latin America.

BBV says it is above target in its so-called "1,000-day plan" to achieve double-digit growth in earnings per share and dividends through to 1997. The chief thrust of its plans for Mexico is to increase the number of branches that Probrusa operates from 150 to 600 and to double its presence in the country, where Probrusa accounts for 3 per cent of the financial system. The expansion is likely to be through the acquisition of a Mexican bank network and its subsequent merger with Probrusa.

BBV is also studying Chile, where it has only a token presence. Banco Santander, which has also invested strongly in Peru and Mexico and is BBV's main rival in domestic Spanish banking, last month spent \$495m in a deal that brought it control of Banco Osorno, Chile's biggest financial institution.

First-quarter group net profit of Cia Española de Petroleos (Cepsa), Spain's largest private oil refiner, fell 8.5 per cent to Ptas4.62bn (\$36m) from Ptas5.05bn in the same period in 1995, AP-DJ reports from Madrid.

Cepsa blamed the surging price of crude oil and government limits on the sale price of petroleum products in Spain for squeezing profits.

The group said the increase in international petroleum prices, which has seen Brent crude oil reach about \$23 a barrel, had not been reflected in the domestic market because of government restrictions on the maximum retail prices of petrol.

Spanish banks shake up Peruvian conquests

BBV and Santander have put their stamp on local acquisitions, writes Sally Bowen

Peru has become the latest battleground for Spain's two heavyweight banks, Santander and Banco Bilbao Vizcaya. Both have bought into the local system during the past year, and are shaking up Peru's staid financial market as they vie for well-heeled clients.

Suddenly, Lima's marble banking halls have been transformed in the race to win deposits. Shiny new cars tied up with ribbons wait to be raffled and colourful posters advertise Caribbean holidays to be won.

BBV, in association with Peru's Brescia group, acquired the former state-owned Banco Continental at auction in April 1995. Results so far from its widely-publicised "Superdeposito" scheme are impressive. Continental, ranked third among Peru's 23 banks, claims it has won 50,000 new clients since the start of the year. Deposits average 2½ times the \$2,500 minimum required for the Superdeposito scheme's 8 per cent a year in dollars, or 15 per cent in Peruvian soles.

"The Superdeposito has been our chief engine of growth," says Mr José Carlos Pla, general manager in Peru for Banco Continental. By the end of the first quarter, deposits stood at 4.3bn soles (\$1.8bn), boosting Continental's market share to 16 per cent, from 15 per cent in January.

New clients are from upper income groups. Deposits are coming both from reverse capital flight (interest rates are better than well-to-do Peruvians can get in Miami) and from "under the mattress", bank officials say.

As Spain's leading retail bank, BBV believes it has a lot to offer the relatively unsophis-

ticated Peruvian market. Its large 1995 profits - around \$1.5bn net - "gave us an obvious capacity to take up new investments", Mr Pla says.

Together with its local partners, BBV offered \$167m cash plus \$60m in debt paper for Continental, easily outbidding rival Santander. Although the state-owned Peruvian group had been slimmed down before privatisation, the new owners spent most of 1995 in comprehensive reorganisation.

This year, they will invest \$25m in state-of-the-art technology, remodelling offices and launching a new corporate image.

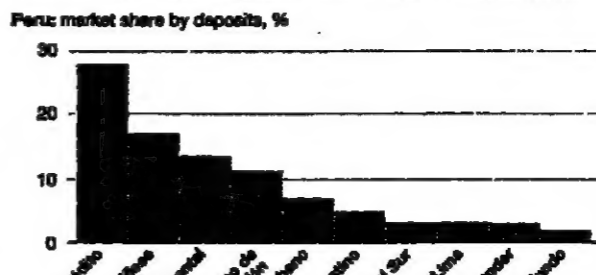
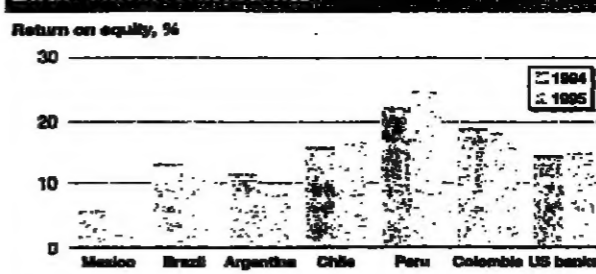
"We haven't spent so much when you compare it with what another bank recently paid to enter the Chilean market," says Mr Pla in a thinly-veiled reference to the \$495m Banco Santander spent last month to merge with Banco Osorno of Chile, a deal that created Chile's largest financial institution.

Having been outbid for Continental, Banco Santander entered Peru by an alternative route.

Late last year it paid almost \$90m for two medium-sized local banks, Mercantil and Interandino, merging the two under the name Banco Santander del Peru on February 1. The parent bank has subscribed to a \$68m capital increase, giving "plenty of room to grow this year", says Mr Oscar von Chrismar, general manager for Peru.

Acquiring Interandino (formerly the Bank of America's Peru branch) immediately gave Santander a portfolio of lending corporate clients. The bank's strategy for this first year is to "get the house in order, establish a good team

Latin American banks



Source: Morgan Stanley

and improve the ratio of overdue loans, which are still high across the Peruvian system", Mr von Chrismar says.

Santander's acquisitions made it Peru's sixth-ranked bank (although it is number four in capital). Its immediate impact on the market has been striking. A couple of months ago, it launched, with great fanfare, a mortgage loan scheme dubbed Hiperhipoteca.

For most Peruvians, mortgages are almost unknown. Santander's offer of fixed-rate loans at 13.8 per cent for up to 15 years looks attractive to many.

The Hiperhipoteca has enticed 16,000 potential clients in three months. So far, \$6m has been lent. The target for

1996 alone is \$70m, Mr von Chrismar says.

While Santander also operates in Venezuela, Brazil, Uruguay, Argentina and Chile, Peru is BBV's principal Latin American initiative. Apart from buying into a stock-broking/banking operation in Mexico last year, it controls a bank in Puerto Rico and offers private banking services through representative offices in Argentina, Brazil, Chile and Colombia.

"Peru was attractive both because of the privatisation opportunities and for its economic and political situation," Mr Pla says.

After three years of strong growth, however, Peru's recent economic indicators look disappointing. Measures to cool the overheated economy have

pushed growth rates down to zero, while inflation is running slightly above 1995's single-digit target.

But both Mr Pla and Mr von Chrismar regard the setback as temporary. "In general, the Peruvian economy is very healthy. Earlier growth levels were unsustainable and this is just a necessary pause," Mr von Chrismar says. "There remains a great deal of foreign interest in Peru."

If they expect the economy as a whole to expand by only around 3.5 per cent this year, the following four years should see sustained expansion of 5 to 6 per cent a year, they say. The financial services sector in still heavily underbanked.

Both expect to be well-positioned to take advantage of the acceleration in growth.

Santander recently acquired a 76 per cent stake in Nueva Vida, one of Peru's six private pension fund administrators (AFPs) for \$12.5m cash and a \$10m capital increase. Intervalea, its highly-regarded stockbroking arm inherited along with Interandino, is now called Santander SAB. In addition, Santander is considering setting up a local mutual fund.

BBV has also established a foothold in the promising private pension fund market with a 13.5 per cent stake in Peru's AFP Horizonta.

It is reorganising its stock-broking arm and has applied for authorisation to set up a mutual fund.

"Peruvian banking has been very passive," BBV's Mr Pla says.

"Competition means banks are now going out to look for clients. Service is still poor, but it is improving."

Amexco and Accor sign pay-card deal

By Andrew Jack in Paris

American Express of the US and Accor, the French-based hotels and leisure group, yesterday signed an agreement covering a co-branded payment card, which will be launched later this year.

The card is the latest in a series of co-operation deals American Express has concluded with other groups. Its largest to date is with Delta Airlines of the US.

Customers in nearly all of Accor's hotel chains - including Motel 6, Novotel, Sofitel and Ibis - as well as its restaurants and other businesses will be able to pay using the card, and earn points towards gifts or travel.

The Accor card will initially be available within France to French citizens from September this year, and subsequently launched in 1997 in Australia, Belgium, the Netherlands, the UK and Germany. Initially, it will simply be a payment card, but the groups are discussing a credit card option.

Speaking at the launch in Paris yesterday, Mr Harvey Golub, chairman of American Express, said: "We were not originally convinced of the idea of co-branding. We now have the belief of the con-

verted." He said co-branded cards helped generate customer loyalty, and that card-holding clients had, on average, doubled annual expenditure with its partners in the US. The group began offering rewards on its cards in the US in 1989.

Mr Paul Dubrule, joint chairman of Accor, said his group had long been searching for a way to associate more closely its individual branded businesses and the Accor group, to make the holding company name "something other than just a share on the stock market".

Mr Golub refused to specify the nature of the financial relationship between American Express and Accor, but said it "represents an appropriate balance of value" for the two groups.

He said his group planned to sign co-branding deals with other business partners, and did not rule out similar accords with rival hotel groups in different countries and time zones.

One Accor subsidiary, Carlson Wagonlit, a travel agency, will be excluded from the co-branding agreement. It has a partnership with Household, a US consumer credit company, which is affiliated with Mastercard.



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SGS Société Générale de Surveillance Holding S.A.

8, rue des Alpes - 1211 Genève 1

NOTICE IS HEREBY GIVEN THAT THE

ANNUAL GENERAL MEETING

of the above Company will be held on Wednesday 5th June 1996, at 3 pm at the Noga-Hilton Hotel, Salle Ballroom (mezzanine), 19 quai du Mont-Blanc, Geneva. The doors will open at 2pm.

Access will be permitted to

- bearer shareholders, upon presentation of an admission card, at the entrance before 2.45 pm
- registered shareholders, upon placing, before 2.45 pm at the entrance, an admission card which will be exchanged for a voting card.

The doors will close at 3 pm precisely.

Ordinary Agenda:

1. Presentation of the Annual Report, the Consolidated Accounts and the Statement of Accounts for the year ended 31st December 1995.
2. Auditors' Report
3. Appropriation of profits.
4. "Décharge" of member of the Board of Directors.
5. Election of Auditors.

Extraordinary Agenda:

5. Reduction of share capital.
6. Amendment of Statutes:

- Amendment of art. 5, 7, 1st par, and 28;
- Insertion of new art. 5 bis and 24 bis.

ANNUAL REPORT - AUDITORS' REPORTS

The Annual Report, the Consolidated Accounts and the Statement of Accounts for the year ended 31st December 1995 and the Auditors' Reports will be available for inspection at the head office of the Company, from 13th May 1996. Each shareholder may request that a copy of these documents be sent to him; registered shareholders appearing on the register of shares as at 7th May 1996 will receive, directly, a copy of these documents.

REGISTERED SHAREHOLDERS

Registered shareholders appearing on the register of shares as at 7th May 1996 will receive, directly, a Notice of Meeting. During the period 13th May 1996 to 5th June 1996 no registration in respect of registered shares will be entered on the register of shares. Shareholders in respect of whom a registration would have been made during the period 7th May 1996 to 13th May 1996 will receive the Notice of Meeting at a later date. Registered shareholders who will have sold their registered shares prior to the Meeting will not have voting rights in respect of those shares.

BEARER SHAREHOLDERS

The holders of bearer shares wishing to participate or be represented at the Meeting may obtain an admission card either by depositing their share certificates at the head office of the Company, or by sending to the Company a statement of deposit and holding duly executed by their bank of deposit. The deposit of share certificates and collection of an admission card may be made on any business day, until 29th May 1996 at the latest, at the head office of the Company between 9.30 am and 11.30 am or otherwise by arrangement (Telephone +41-22-739.95.51, Share Registry). No admission cards will be available at the entrance of the Meeting. The shares deposited may be collected from the first business day following the Meeting.

REPRESENTATION

Shareholders not wishing to take part in the Meeting may be represented by another shareholder (in accordance with the provisions of the Statutes, registered shareholders may only be represented by another registered shareholder in possession of a written proxy) or by their bank of deposit. They may also be represented by a representative of the Company or, alternatively, designate Ms Dominique Brown-Bersot, attorney-at-law, Forriep Renggli & Partners, 4, rue Charles-Bonnet, CH-1206 Geneva, an independent person pursuant to Article 689c CO, to represent them at the Meeting: in such instance, we would ask that registered shareholders address their admission card and proxy form or, in the case of bearer shareholders, their admission card, directly to Ms Dominique Brown-Bersot at the aforementioned address.

Deposit representatives within the meaning of Article 689d CO, are requested to inform the Company as soon as possible, and in any event not later than 5th June 1996 at the entry roster of the Meeting of the number, nature and nominal value of the shares they represent. Institutions subject to the Federal law on banks and savings institutions of 8th November 1934 as well as professional portfolio managers are considered as deposit representatives.

MINUTES OF THE MEETING

From the 11th June 1996, the resolutions of the Meeting will be available for inspection by shareholders at the head office of the Company.

The Notice of Annual General Meeting, together with all proposals of the Board of Directors is published in the Swiss Federal Trade Gazette, the official publication body for the Company, on the 14th May 1996.

On behalf of the Board of Directors
Elisabeth SALINA-MORINI
Chairman

FIRST PACIFIC
FIRST PACIFIC CAPITAL LIMITED
(Incorporated in Hong Kong under the Companies Ordinance
(Chapter 32) with limited liability)
US\$50,000,000
Guaranteed Floating Rate Note due 2000

FIRST PACIFIC COMPANY LIMITED
(Incorporated in Bermuda under the Companies Act, 1990 with limited liability)
In accordance with the provisions of the Floating Rate Notes, notice is hereby given that for the period from 13/5/96 to 13/11/96 the Notes will carry an Interest Rate of 6.825% per annum calculated on a principal amount of:
US\$34,883.33 per Note of US\$1,000,000

Standard & Chartered
Standard Chartered Bank
as Reference Agent

USD 10,000,000,000 EURO MEDIUM TERM NOTE PROGRAMME OF
SOCIÉTÉ GÉNÉRALE, SGA SOCIÉTÉ GÉNÉRALE ACCEPTANCE N.V.
AND SOCIÉTÉ GÉNÉRALE AUSTRALIA LIMITED
SERIES N°1, 2 AND 3
SGA SOCIÉTÉ GÉNÉRALE ACCEPTANCE N.V.
XEU 5,000,000 2.5% NOTES DUE MAY 13TH, 1996
ISIN CODE: XS0043973048

Notice is hereby given to the Noteholders that, pursuant to the Terms and Conditions of the Notes, the Redemption Amount applicable upon Redemption of each Note is:
XEU 10 833.98 per denomination of XEU 10 000
Payment of interest and reimbursement of the Principal due on May 13th, 1996 is made in accordance with condition 6 "Payment" of the Terms and Conditions of the Notes.

The Principal Paying Agent
SOCIÉTÉ GÉNÉRALE BANK & TRUST - LUXEMBOURG

APPOINTMENTS

MERGERS & ACQUISITIONS

As an analyst within the Mergers & Acquisitions division of this leading international financial services company, you will be responsible for primary analysis of corporate accounting data and market information and valuation of European and North American companies requiring an understanding of European and American accounting standards. Financial analysis tools and techniques and ability to manage and interact with senior executives. In addition, a multi-cultural background and fluency in a second European language in addition to English is required. Salary circa £38,000. Applicants, aged 25-30, educated to MBA standard with 3-4 years' relevant business experience, should write in strictest confidence enclosing full curriculum vitae to Box A5522, Financial Times, One Southwark Bridge, London SE1 9HL.

CITIC Pacific Finance Limited
US\$200,000,000
Guaranteed Floating Rate Note due Nov 1997
guaranteed by
CITIC Pacific Limited

In accordance with the terms and conditions of the Notes, the rate of interest applicable for the Interest period May 9, 1996 to November 12, 1996 is 6.125% per annum.

Interest payable on November 12, 1996 per Note of US\$200,000, US\$100,000 and US\$50,000 will be US\$21,590.80, US\$10,795.40 and US\$5,397.70 respectively.

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Macmillan
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COMPANIES AND FINANCE: ASIA-PACIFIC

NEWS DIGEST

Sony Music drops 12% to Y20.9bn

The success of Dreams Come True, a highly popular Japanese band, failed to lift the performance of Sony Music Entertainment, the recorded music arm of Sony, which yesterday reported a drop in pre-tax profits despite slightly higher sales. In the year to March 31, Sony Music saw revenues grow 2.3 per cent to ¥114.6bn from ¥112.0bn previously. Pre-tax profits, however, fell 12 per cent from ¥23.9bn to ¥20.9bn (£198.4m).

Sony, which markets such overseas artists as Michael Jackson and Mariah Carey, attributed the disappointing performance to a rise in marketing costs and lower interest income. The company has been faced with the need to develop new talent to generate revenues in future years. Foreign pop artists, like their Japanese counterparts, did not sell strongly, although classical recordings fared well.

At the same time, Sony said sales this year were not as strong as in the previous year which had seen a number of special albums commemorating the tenth anniversary of a number of artists, or marking the break-up of others.

The weak recovery from prolonged recession has seen the Japanese market split in to strong selling artists and those who achieve only mediocre sales, according to the Recording Industries Association of Japan.

Meanwhile, Sony said low interest rates had also hurt its non-operating income. Income from interest and dividends fell by 40 per cent from ¥5.2bn to ¥3.1bn.

Michiko Nakamoto, Tokyo

Toray buys French film maker

Toray Industries, Japan's leading producer of synthetic fibres, said yesterday it had become the world's largest producer of polyester film, with the acquisition of a film making company in France.

Toray has bought Rhône-Poulenc Films, a subsidiary of France's largest chemicals group, which has a 30,000 tons annual capacity plant near Lyons, with an annual turnover of FF1bn (£130m). It did not announce a purchase price, though earlier Japanese press reports estimated the value of the deal at ¥15bn to ¥20bn (£143m-£190m).

The Japanese company plans to invest FF600m at RFF, to be renamed Toray Plastics Europe, over the next three years, as part of a general European expansion. RFF's main customers are the packaging and magnetic recording industries.

Toray, which already makes polyester film in the US and Malaysia, has estimated a 5 per cent rise in recurring profits - before tax and extraordinary items - to ¥36bn in the year to March, on sales up 4.6 per cent to ¥550bn. Its annual results are due later this week.

William Dawkins, Tokyo

Thai broker lifts profit 11%

Securities One, a leading Thai brokerage, reported first-quarter profits rose 11 per cent compared with the year before, to Bt261m (£10.3m). Earnings per share were also up 11 per cent.

Full financial details were not released, but analysts said the results were below expectations. Although brokerage and fee income increased 48 per cent from the year before, the company was hurt by a decline in market share from 5.4 per cent in the first quarter of last year to 4.9 per cent this year. In addition, the average commission charged by Securities One fell as the company's client base became more heavily weighted to institutional investors.

Company officials said they hoped an improving macroeconomic situation in Thailand would improve stock market performance, which will help both commissions and trading gains. The company is in the process of completing a merger with First Asia Securities, which will have a dilution effect on earnings per share but will boost non-Thai income as First Asia's overseas earnings begin to be accounted for in the fourth quarter of 1996.

Revenue from a joint-venture with Morgan Stanley covering research, sales and trading is expected to kick in during the second quarter of this year. For these reasons, most analysts expect full-year profit growth of around 20 per cent.

Ted Bardacke, Bangkok

Indian Aluminium up 24.55%

Indian Aluminium, owned 34.6 per cent by Alcan of Canada, posted net profits for the year to March 31 up 24.55 per cent to Rs1.142bn (£32m). Gross profits rose 44.73 per cent to Rs1.08bn from Rs1.3bn a year earlier. Sales advanced 18.4 per cent to Rs11.85bn, including exports of Rs2bn, up 38 per cent. Earnings per share rose to Rs16 from Rs13. A final dividend of Rs2 makes a total for the year of Rs4.

The company raised its production to 53,000 tonnes from 43,365 tonnes. It also bought 25,000 tonnes of metal from the market for value addition. The company has formed a joint venture with Hydro Aluminium of Norway and Tata Industries, India's largest business group, to build an aluminium refinery with capacity of 1m tonnes a year at Baphimalai in Orissa. Alcan is likely to become the fourth partner in the venture.

Kunal Bose, Calcutta

Sharp reverse at CSR

The sharp downturn in Australia's housing market left CSR, the building materials, sugar and aluminium group, posting an 18 per cent drop in profits after tax but before abnormal items in the year to end-March. CSR made A\$320.1m (US\$257.2m), compared with A\$390.5m last time. After a small abnormal surplus, the bottom-line figure stood at A\$330.8m, down from A\$392.6m.

The CSR result is likely to herald a run of lower profits from many Australian companies as results for 1995-96 start to be reported. A number of companies, in sectors ranging from construction to media, have warned of an impending downturn, and last week Pacific Dunlop, the Melbourne-based conglomerate, and Southcorp, the wine, packaging and appliance group, joined that list.

CSR's profit was reached on sales up from A\$6.25bn to A\$6.38bn. The total dividend for the year is held at 28 cents. On an earnings per share basis, the result was down by 21 per cent at 33.6 cents.

The company blamed the outcome largely on the Australian housing sector, its core market, where it noted new housing starts had fallen by almost 30 per cent. Profit on construction materials fell from A\$108.7m to A\$62.8m; on building materials, from A\$90.2m to A\$74.4m; and on timber products, from A\$68.6m to A\$25.2m.

The sugar business was also a weak performer, partly because of difficulties during the crushing season and because of price wars in the refined sugar market. Profits were down from A\$96.7m a year ago, to A\$64.7m.

Much healthier results came from the North American building materials division, where profits rose from A\$82.2m to A\$110.6m, and from aluminium which made A\$77.6m, against A\$66.7m previously.

Nikki Tait, Sydney

Sydney Casino raises A\$64.8m

Sydney Harbour Casino, which is operating from temporary facilities on the city's harbourside but is in the process of constructing a A\$400m permanent complex, yesterday raised A\$64.8m (US\$52.1m) in new equity.

The company said 35.25m preferred ordinary shares had been placed at A\$1.84 each, a 4 per cent discount to the weighted average trading price, by Bain & Co, the stockbrokers, with a range of institutional investors in Australia and overseas.

The permanent casino is due to open in early December next year, six months earlier than planned, and will be one of Australia's largest. But the launch of the new gaming facility has been plagued by suggestions that Australia's rapidly-expanding casino industry is oversupplied. Sydney Harbour Casino last week reported a profit of A\$600,000 for the three months to end-March, after abnormal costs of A\$11.3m.

Nikki Tait

Beijing keeps close eye on Hongkong Telecom

By John Ridding
in Hong Kong

The Hong Kong arm of China's ministry of post and telecommunications (MPT) said yesterday that it was taking an active interest in developments concerning Hongkong Telecom, but remained guarded about whether the MPT was seeking a stake in the territory's dominant operator.

An official at Telco, the Hong Kong-based subsidiary of the MPT, said it was gathering information about Hongkong Telecom and the territory's telecoms market and studying options for the mainland operator. "But this does not mean that we are preparing to buy a stake," the official said.

The statement, prompted by a report in the Hong Kong Economic Times, comes as speculation mounts that mainland interests will seek to raise their holding in Hongkong Telecom as part of a restructuring. "Hongkong Telecom's ownership is in a state of unstable equilibrium," says a report by Mr Adam Quinlan, regional telecoms analyst at Merrill Lynch.

Expectations have been fuelled by the failure of merger talks between British Telecom, Cable and Wireless, which controls Hongkong Telecom, and by a significant reorganisation of Hong Kong's aviation sector at the end of last month.

The reorganisation, in which Chinese companies took big stakes in Hong Kong's airlines, raised the prospect of a similar move in telecommunications, one of the few significant business sectors without a significant Chinese presence.

Attention has focused on the MPT and Citic Pacific, the Hong Kong arm of Beijing's flagship investment vehicle which already holds 10 per cent of Hongkong Telecom.

But while analysts noted strategic benefits as well as political considerations behind a mainland move, they said that the price of a share purchase presented a considerable obstacle.

"Hongkong Telecom has a capitalisation of around US\$30bn, so a meaningful slice would prove very expensive," said Mr Dylan Tinker, telecoms analyst at Jardine Fleming in

Hong Kong. One possible outcome, cited by some in the industry, would be a consortium grouping BT or other international telecoms operators with a Chinese partner.

The acquisition of a stake by mainland interests would support Hongkong Telecom's attempts to expand in China. For Chinese companies, the attractions would be a stake in a highly profitable company which holds the monopoly on international direct dial calls until 2006.

The profitability of Hongkong Telecom will be illustrated today with the announcement of results for the year to the end of March. Average forecasts in Hong Kong are for net profits of just under HK\$10bn (US\$1.29bn), a rise of just over 14 per cent compared with 1994-95.

Investors' attention will centre on the trend in volume and line growth, both of which were sluggish in the first half of the financial year. More positive aspects concern the expansion of the operator's mobile telecoms operation and improved margins resulting from cost-cutting efforts.

Singapore Airlines up 11.7% despite core business setback

By James Kynge
in Kuala Lumpur

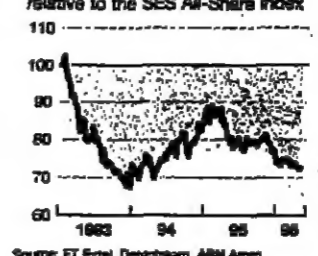
PROFILE: Singapore Airlines

Market value: US\$7.3bn	Main listing: Singapore
Historic P/E	11.08
Gross yield	2.85%
Earnings per share	Cents 79.9
Current share price	S\$ 8.0

Chong Chong Kong Managing director

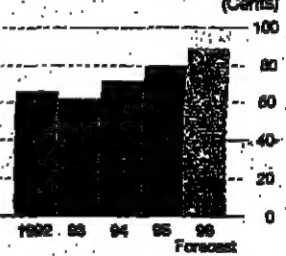
SHARE PRICE

relative to the S&P 500 Index



EARNINGS PER SHARE

(Cents)



Source: FT Econ. Datastream, ABN Amro

Singapore Airlines (SIA) announced a healthy increase in group profit for the 1995-96 financial year yesterday, but its core business suffered a decline in profits after being hit by rising fuel costs and stiff competition.

Group net profit rose 11.7 per cent to S\$1.03bn (US\$729.5m) in the year to March 31 1996, while revenues rose 5.1 per cent to S\$6.85bn.

Both figures were within analysts' expectations. But SIA's core airline business was hit as revenues could not keep pace with a host of cost increases, derived in part from the creation of an additional 11.6 per cent in passenger and cargo capacities, and in part from rising staff costs, landing fees and fuel prices.

The core company's operating profit declined S\$61m, or 7.4 per cent, to S\$756m, and net profit fell by S\$63m, or 6.7 per cent, to S\$876m.

"The core performance is disappointing because behind it lies falling yields from passenger and cargo traffic. We don't expect to see yields recover this year and in fact we will probably see a further decline," said an investment analyst in Singapore.

Overall yields fell 6.3 per cent to 69.7 cents per load-tonne-kilometre as passenger and cargo yields fell 4.5 per cent and 4.9 per cent respectively, SIA said.

Analysts said yields could fall 3 per cent in 1996-97 if the Singapore dollar continued to appreciate and fuel prices also climbed. The Singapore dollar rose 3.6 per cent against a basket of currencies last year.

At the same time, keen competition is likely to mean that rising costs will only be partially passed on to customers, analysts said.

SIA's response is to try to lower unit costs by pushing relentlessly for economies of scale. Overall capacity is planned to increase by 8 per cent in 1996-97, with 7 per cent of this coming from passengers and 1 per cent from cargo.

Last November the company ordered 77 Boeing 777 aircraft for S\$17.9bn and plans to take delivery of the first few in March or April next year - probably too late to show up on this year's balance sheet.

The deliveries are not slated to end until 2004, and the company hopes their entry into its

fleet will provide capacity growth at 8 to 10 per cent annually for the next 10 years.

So far, SIA's strategy has made some headway - unit costs in 1995-96 fell by 5.2 per cent, the company said. Its three new Asian routes started last year to Cairns, Australia, Hangzhou in China and the Portuguese-administered enclave of Macau were showing "healthy" business, although it declined to give load factors.

Group earnings were bolstered in 1995-96 mainly by strong performances at subsidised Singapore Airport Terminal Services and SIA Engineering Company, and by the writeback of provisions for unrealised losses.



Boeing 777: deliveries to SIA will start next March or April

Ampolex board recommends increased Mobil bid terms

By Nikki Tait
in Sydney

The battle for control of Ampolex, the Australian energy group, ended yesterday when Mobil, the US oil major, announced that it was raising its cash bid from around A\$1.5bn to A\$1.78bn (US\$1.43bn), and Ampolex directors recommended acceptance of the new offer.

The new terms are A\$4.64 per ordinary share, compared with A\$4.25 previously. Significantly, the terms are within the valuation range of A\$4.44 to A\$5.91 a share suggested by Grant Samuel in an independent valuation report on Ampolex released last week.

The offer for the preference shares also increases, from A\$4.37 a share to A\$4.68.

Mobil said it had held talks with Ampolex directors over the weekend, and would be meeting the group's main shareholders this week. It already held a near-15 per cent stake in Ampolex's ordinary shares and yesterday lifted that to 21.1 per cent through market purchases.

In giving their support to the Mobil offer, Ampolex directors also said they would not attempt to sell any significant assets. This puts to rest strong suggestions in recent weeks that Ampolex might seek to dispose of its 14.29 per cent stake in the West Australian Petroleum consortium, in which Chevron, Texaco and Shell are other partners.

The WAPET consortium is considering the development of the large Gorgon gas field, off Western Australia. Although development costs have been put at between A\$7bn and A\$11bn, the field has the poten-

tial to become WA's second significant liquefied natural gas export operation by the beginning of the next century. The WAPET stake was widely viewed as one of the main reasons for Mobil's interest in Ampolex.

Ampolex also said it had agreed to consult with Mobil over any settlement possibilities in the litigation over the terms on which its convertible notes should convert.

The dispute and subsequent litigation, which led to a fall in Ampolex's share price and may have made it vulnerable to a bid, were brought by Sir Ron Brierley's Guinness Peat group.

Ampolex yesterday asked for a suspension of its convertible notes, pending a statement later today. It indicated that it was close to reaching some form of settlement.

COMPANIES AND FINANCE: THE AMERICAS

NEWS DIGEST

Northern Telecom in \$150m US buy

Northern Telecom, the Canadian-based telecommunications equipment supplier, plans to expand its business networks expertise with a friendly US\$150m takeover of Microm Communications of Simi Valley, California. Microm directors have urged shareholders to accept Nortel's offer of \$12 a share. Odyssey Partners, Microm's biggest shareholder, has agreed to tender its 44 per cent stake. Microm shares, which trade on the Nasdaq over-the-counter market, closed at \$14 last Friday.

Microm specialises in integrating companies' data, voice, fax and local-area network traffic into wider networks. Nortel was also attracted by its distribution network, which covers 85 countries.

Bernard Simon, Toronto

Unisys launches new PC range

Unisys, the US computer group which is struggling to return to profitability, yesterday unveiled a new family of build-to-order personal computers aimed at corporate users. The new Aquanta range includes desktop, server and notebook PCs.

Unisys has suffered a series of setbacks during the past few years and is restructuring to realign its operations into three new business units focused on computer equipment and services. However, its customised PC business has been thriving, with sales increasing 74 per cent in 1995. Prices for the new machines, which run on Intel's Pentium processors, range from \$1,200 for a desktop machine to \$3,900 for a high-end server.

Paul Taylor

iVillage wins \$12m finance

iVillage, the nine-month-old US Internet content company, announced yesterday that it had secured \$12m in financing from four new investors, making it one of the most heavily capitalised content companies in the US.

America Online, the online service provider that originally invested \$2m to help found the company, made an additional investment. Two large media groups, TeleCommunications, through its TCI Interactive unit, and Tribune Company, are also new investors, as is Kleiner Perkins Caufield & Byers, one of the most prominent technology venture capital groups in the US. The new money will be used to finance the development of new channels and acquire other companies, iVillage said.

Lisa Branstetter, New York

George Weston disappoints

George Weston, the Weston family's Canadian food distribution and resource group, posted first-quarter results below most market estimates because weakness in the fishery operations and lower forest products results offset strengths in the food unit. Loblaw, Weston's main US unit, earned \$57.8m (US\$57m), or \$1.66 a share, up 168 per cent from \$30.3m, or 64 cents, a year earlier. However, the latest quarter included a special gain on the sale of the confectionery unit, and final net profit was equal to 50 cents a share.

Revenues were \$32.8m, down 9.5 per cent from a year earlier. The decline was due to asset sales, after which revenues were up 5 per cent.

At the operating level Loblaw contributed most - \$360.8m, up 8.7 per cent from \$337m. Loblaw is now solely a Canadian food distributor after the sale last year of its US subsidiary. In the first quarter sales rose 7.3 per cent. The food processing unit was up at \$33.5m from \$31.8m. Fisheries dipped to \$300,000 from \$34.8m and forest products contributed \$314m against \$336m.

Robert Gibbons, Montreal

IBM sells Prodigy stake

IBM said the sale of its 50 per cent stake in Prodigy Services, the third-largest consumer online information service, to privately-held International Wireless and a group of Prodigy executives will not have any material effect on its financial results. The price of the deal was not disclosed but the Prodigy management team was initially looking at finding investors for the buy-out for a price of about \$250m.

Reuter, New York

Canadian Occidental ahead

Record oil output by the Mastia field in the Yemen and strength in North America pushed Canadian Occidental Petroleum's first quarter net profit to \$360m (US\$365m), or 73 cents a share, from \$330m, or 48 cents, a year earlier on revenues of \$3,515m against \$3,278m.

A US\$78m payment to the Yemen government to settle site, transport and other issues has been charged to capital spending, which will total \$360m for 1996.

Robert Gibbons

JP Morgan to outsource IT operations in \$2bn move

By Richard Waters in New York

J.P. Morgan is to farm out a large part of its routine information technology operations, marking one of the biggest outsourcing deals of its kind.

The US bank said yesterday that it had reached an agreement with a group of technology companies under which it will pay \$2bn over seven years. The deal covers about one-third of the bank's spending on computers and telecommunications, and will yield savings of 15 per cent a year, the bank said. Morgan spent \$1.04bn in these areas last year.

In terms of annual value, the contract compares with the biggest in the booming outsourcing business. Last year,

Swiss Bank Corporation agreed to pay Perot Systems \$6.25bn over 25 years to handle its computer operations, while Xerox is to pay EDS \$3.2bn over 10 years.

Unusually for such an arrangement, four different contractors have formed a partnership to handle the Morgan technology operations, and will jointly buy three of the bank's computer facilities and take on 900 of its employees.

Computer Sciences will run the computer facilities in New York, London and Delaware, while Andersen Consulting will develop software applications and provide maintenance support. AT&T and Bell Atlantic will run the bank's global voice and data network and distribute computing.

Mr Douglas Warner, chairman of J.P. Morgan, said the deal would enable the bank to "exploit new technologies, manage costs, and create competitive advantage".

The decision to use outside contractors marks a further attempt to rein in the bank's technology and communications spending. This has jumped in recent years as the bank has grown internationally. IT now consumes 45 per cent of Morgan's non-staff costs each year, compared with 35 per cent at the beginning of the decade.

Mr Peter Miller, co-head of corporate technology, said the amounts to be paid under the contract were dependent in part on the volume of transactions handled, as well as other

factors. That would enable the bank to convert part of its fixed costs into variable costs, allowing it control its unit costs better, he added.

Morgan already contracts out about 10 per cent of its technology spending, and a large part of its remaining costs are paid to suppliers of market data, such as Reuters and TeleRate.

The bank plans to limit its in-house technology expertise to what Mr Miller called "the short end of the wedge": a small group whose job is to develop applications for individual business units. These include developing risk management algorithms to support the bank's own operations and the creation of financial instruments for clients.



Douglas Warner: deal will give bank 'competitive advantage'

Coca-Cola bottler seals Europe deals

By Richard Tomkins in New York

Coca-Cola Enterprises, the biggest US bottler of Coca-Cola soft drinks, is embarking on a big expansion of its European interests by buying most of Coca-Cola's bottling capacity in France and Belgium for \$915m.

The acquisition, expected to be completed early in the third quarter, will build upon Coca-Cola Enterprises' move into Europe in 1993, when it bought Coca-Cola's bottling operations in the Netherlands.

Coca-Cola Enterprises is 44 per cent owned by Coca-Cola, but operates independently and its shares are quoted separately on the NYSE.

The company is the world's biggest bottler of Coca-Cola products, but most of its revenues come from the relatively mature US market, where it accounts for about 87 per cent of all Coca-Cola products sold. Recently it has been expanding by acquisition. In 1993, it paid Coca-Cola \$360m for two small bottlers in the US and Coca-Cola Beverages Nederland, its first acquisition outside the US.

The latest acquisitions are also being bought from Coca-Cola. They are Coca-Cola Beverages and Coca-Cola Production in France, which caters for about 90 per cent of the French market, and SA Beverage Sales Holding in Belgium, which is the country's only Coca-Cola bottler.

Coca-Cola Enterprises said the French bottlers sold 168m unit cases last year, and the Belgian bottler 94m unit cases. On a pro-forma basis, their operations would add \$1.2bn to Coca-Cola Enterprises' 1995 revenues.

The US company said it was interested in making more acquisitions in territories adjacent to its existing areas. It said that following the latest deals, more than 15 per cent of its unit case sales would be generated outside the US.

Crash prompts 23% tumble in ValuJet shares

By Richard Tomkins in New York

Shares in ValuJet, the US low-cost airline, tumbled 24% to \$13 1/2 in early trading yesterday - a fall of 23 per cent - following Saturday's disaster involving one of the company's McDonnell Douglas DC-9 aircraft.

Investors feared that the crash could cause passengers to shun the airline, particularly after some US media reports raised questions over ValuJet's safety record.

A total of 104 passengers and five crew died when the DC-9 plunged into a swamp soon after taking off from Miami. The pilot had turned back towards the airport after

reporting smoke in the cockpit and cabin.

Witnesses said the aircraft plunged to the ground in a near-vertical dive.

So far, the cause of the crash is unknown. The first officer's last transmission was unintelligible - possibly because he was wearing an oxygen mask, investigators say.

Efforts to recover the wreckage and "black box" flight recorder have been hampered by difficult conditions in the swamp.

Much of the US media coverage of the accident has focused on the fact that the aircraft involved was 27 years old, and had returned to airports after take-off seven

times in two years with various mechanical problems.

Perhaps of greater concern, the airline last month said it was voluntarily trimming plans for a big expansion of its fleet after the Federal Aviation Administration raised concerns about a string of non-fatal mishaps - for example, the collapse of an aircraft's landing gear.

The FAA's concerns were said to have focused on pilot training and the quality of maintenance by outside contractors.

The authority decided to carry out a scrutiny of ValuJet's safety and maintenance procedures, citing the airline's rapid growth since it started up in 1983.

Yesterday the FAA said it was intensifying that review, bringing forward a week-long check-up on the airline that had been due to begin next week.

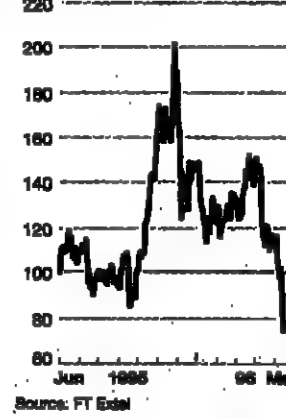
ValuJet said it welcomed the scrutiny, and would continue to work with the FAA "to assure the highest levels of safety".

ValuJet was floated on the stock market in June 1984 at a price of \$12.50 a share. Amid rapid profits growth, its stock price soared to a peak of \$34 last December.

However, the airline was subsequently hit by increased competition from Delta Air Lines and by concern over last month's delay to its expansion plans.

ValuJet

Share price relative to the S&P Composite



Source: FT Econ

What's behind a balance sheet?

Performance.

- Consolidated balance sheet total: DM 318.4 billion (+13.3%)
- Total lending volume: DM 186.0 billion (+9.5%)
- Total deposits: DM 180.8 billion (+14.8%)
- Own Issues outstanding: DM 104.9 billion (+11.1%)
- Capital & Reserves: DM 14.0 billion (+28.5%)

- Net income for the year: DM 952.1 million (+34.1%)

- Allocation to reserves: DM 361.1 million

- Dividend: 7%

→ Generated by 5423 employees

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CONTRACTS & TENDERS



Abu Dhabi National Oil Company (ADNOC)
SALE OF THAMMAMA "F" GAS SWEETENING PLANT
AT HABSHAN, LOCATED IN ABU DHABI
UNITED ARAB EMIRATES
TENDER NO. SDP/11/96

ADNOC invites interested parties to participate in the sale, on "as is where is" basis, of old Thammama "F" Gas Sweetening Plant.

THE GAS PLANT CONSISTS OF THE FOLLOWING UNITS:

- Two Molecular Sieve units for simultaneous sweetening and dehydration with capacity of 125 MMSFD of Thammama "F" gas. Each train consists of four vessels loaded with molecular sieves.
- One Catacarb unit for treatment of regeneration gas from the molecular sieves unit with capacity of 100 MMSFD.
- One Glycol Dehydration unit for dehydration of the regeneration gas.
- One Chilling plant for controlling hydrocarbons dew point of the gas with capacity of 250 MMSFD.

For further information and to obtain the enquiry package which includes scope of sale, payment terms and other terms & conditions, please contact the following address latest by 30.5.1996.

Inspection & Surplus Disposal Section
Supply Division

Abu Dhabi National Oil Company (ADNOC)
ADNOC Building - Shaikh Khalifa Street
11th Floor - Room No. 1108

Phone: 9712-6027292/6027252 Fax: 9712-6027465/6027344
Telex: 24232 ADNOCHEM

INTERIM REPORT - SPARBANKEN SVERIGE - JANUARY - MARCH 1996

Improved Operating Result -
Return on equity up to 18.2%

The operating result improved by 65% to SEK 1 209 M
Earnings per share SEK 3.10

Result, The Group

	Jan-Mar 1996	Jan-Mar 1995	Change
Interest income	11 591	11 099	+4%
Interest expense	263	277	-5%
Interest payable	-9 258	-9 353	+1%
Commission, net	609	430	+42%
Net result on financial operations	485	271	+79%
Other income	150	235	-37%
Total income	3 899	3 899	0%
Personnel expenses	1 036	1 045	-1%
Other expenses	1 155	1 101	+5%
Total expenses	2 191	2 146	+2%
Operating income before tax losses	1 708	1 490	+15%
Income tax	490	750	-35%
Operating result	1 209	740	+63%
Net result for the period	883	703	+26%
Net interest income	8 300	8 411	-1%

Key Figures, The Group

	Jan-Mar 1996	Jan-Mar 1995
Lending, SEK bn	361.0	382.4
Deposits, SEK bn	159.4	151.9
General public, SEK bn	58.9	48.9
Total assets, SEK bn	17.0	16.5
Equity, SEK bn	18.2	15.3
Return on equity, %	3.10	2.52
Adjusted equity per share, SEK	61.29	63.80
IF ratio before credit losses	1.49	1.77
IF ratio after credit losses	1.49	1.77
Capital adequacy ratio, %	11.5	12.3
Primary capital ratio, %	8.0	7.0
Loan loss ratio, %	0.5	0.8
Doubtful claims to lending, %	2.0	2.5
Number of full time employees, March 31	9 574	9 908

The Report can be requested from Sparbanken Sverige, Investor Relations
fax tel. +46-8723 71 32. The report is also published on the Bank's homepage on
Internet, address: www.sparbanken.se

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Fenner advances to £8.2m

By Simon Kuper

Shares in Fenner rose 9p to 170p yesterday as the industrial products group reported a 50 per cent rise in interim pre-tax profits to £8.2m. Sales rose by a fifth to £126.3m in the six months to February.

But Mr Mark Abrahams, chief executive, said: "We do expect the markets to get slightly tougher for us." He expected a downturn in continental Europe, particularly in Germany. However, he added: "Our businesses tend to be niche and tend to outperform."

He said: "You can expect to see some bolt-on acquisitions from Fenner." But the rate of acquisitions of the previous few months would slacken. He expected no disposals. "We have disposed of most of our non-core businesses now," he said. Fenner was now concentrating on the £10m a year capital spending programme which it began last year.

The fastest growth over the six months to February came in the power transmission divi-

sion, where operating profits rose 96 per cent to £3.15m, which was mainly from the impact of new management. Operating profits in the advanced engineering products division rose 46 per cent to £3.66m, and in the conveyor belt division by 24 per cent to £1.2m.

However, operating profits in the fluid power division fell by a fifth to £1.74m. Mr Abrahams said this was because of falling demand in the US truck market for Fenner's tailgates. He expected demand to stabilise.

The group said that the costs of merging its polymer moulding operations and combining its two UK conveyor belt businesses would be about £7m. This would be set against second-half profits. The changes would destroy about 440 jobs at its Hull and Peterborough sites, but create about the same number at its new plant in Wales.

The interim dividend will be 19 pence ahead at 1.7p, payable as a foreign income dividend.



Mark Abrahams (left) with Colin Cooke, chairman

DMG nears the forex summit

Philip Gawith analyses reasons for the bank's surge past its rivals

There would have been few surprises in the foreign exchange market at the rapid progress up the annual Euromoney league table by Deutsche Morgan Grenfell.

It has been aggressively developing its foreign exchange business over the past two years, as part of an expansion of its investment banking and capital markets activities.

DMG leapt to ninth in Euromoney's survey of foreign exchange banks, from 22nd.

While DMG has made great progress, it is not without its critics. Competitors point out that the Euromoney survey is a statement about visibility and turnover, not profits. They question what sort of money the bank can be making given the lavish expenditure on recruitment. One manager says DMG has been writing "the most amazing contracts the City has seen". This is when the industry is becoming more cost conscious amid spec-

ulation that the spectacular growth of the past 15-20 years has levelled off. But its ambitions are far from sated. According to Mr Albert Maasland, head of trading and sales for continental Europe, DMG will "challenge the leaders over the coming years".

"This is just the start. We are only part way through the transformation of the foreign exchange business into a truly global business."

It can play to both the markets served by commercial banks, whose strengths are in areas such as cash management, custodial relations, and corporate clients, and the advisory/capital markets type business in which investment banks specialise. "We have access to a much broader base than any of our competitors and we're starting to put that together now," he said.

Instrumental in developing DMG's forex business has been Mr Michael de Sa, head of global foreign exchange, who joined from Citibank in 1994.

Other recruits include Mr Nick Seecroft and Mr Dan Almeida, both from Citibank, who run the London and New York offices, and Mr Maasland from HSBC Markets.

Mr de Sa said recently he had built up DMG's global forex complement by 20 per cent to 480 people. Foreign exchange profits were DM\$32m (£31m) in 1995, up from DM\$49m.

The key strategic decision was to move many traders to sales. Previously it had 37 largely autonomous dealing rooms, all making prices in different currencies. Now price making in the main currencies is concentrated in London, Frankfurt, New York and Singapore.

Concentrating liquidity in a few centres confers other advantages. It gives a better overall sense of market flows, which customers find useful, while enhancing successful proprietary trading.

It also gives DMG greater clout in the interbank market. Mr de Sa said: "It puts you in a

position to come up with a better relationship with your competitors. We weren't getting return. We were giving out liquidity, but not getting it back. You need relationships with people who will return liquidity in difficult conditions."

DMG insiders believe the bank has achieved two of its three aims. The first was to establish a presence in the interbank market as a provider of liquidity; the second was to develop an options capability, the third to improve the bank's standing in emerging markets.

The initial focus has been in Europe. "That is our goal - to dominate Europe," says Mr de Sa. "If successful, you have automatically positioned yourself as a global player."

Six months ago he said the challenge was to compete with the top six or eight banks in London. The bank was seventh in London in the Euromoney survey so business would appear to be going according to plan.

LEX COMMENT

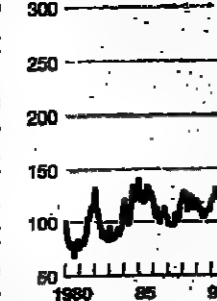
Bank of Scotland

Standard Life's plan to sell most of its 32 per cent stake in Bank of Scotland undoubtedly puts the Scottish bank into play. The two institutions may have had a long-standing and friendly relationship, but Standard has a fiduciary duty to its policyholders to get the highest price for its stake. And that would inevitably come from a strategic buyer. But while Bank of Scotland may be up for grabs, it is far from certain there will be takers. The wave of take-overs in global banking has been driven by the potential to remove costs. Bank of Scotland, however, has a comparatively low cost ratio and little overlap with other banks, so there are no easy savings for a British predator. And since it is regionally focused, it is not an obvious stepping-stone into British retail banking for a foreign buyer.

Moreover, the bank's management would give a distinctly nationalistic tinge to its fight to retain independence - which means the take-out price would probably have to be a steep one. Of course, Bank of Scotland offers an attractive market position in Scotland. And the share sale takes place during a narrow window of opportunity for potential buyers, before elections produce what will probably be a less business-friendly government. However, investors cannot bank on this - and there is downside risk. In the absence of a strategic buyer, the sale of 11bn of Bank of Scotland shares to institutions would depress the share price - particularly since investors are facing another 11bn of new banking shares next year, with the arrival of a herd of reformed building societies.

Bank of Scotland

Share price relative to the FT-SE-A All-Share Index



Source: FT Data

Internet groups to form EUnet link

By Paul Taylor

Nine of the 28 affiliated Internet service companies making up the pan-European EUnet group have combined to form EUnet International, marking a significant consolidation within the Internet service marketplace.

The new UK-based holding company brings together nine independent national Internet access providers in France, Belgium, Luxembourg, Austria, Finland, Switzerland, Portugal, Norway and the Czech Republic. Several other national EUnet providers are also negotiating to merge with EUnet International.

As part of the deal, Advent International, a large private venture capital firm, led a

\$12m investment in the new company which plans to expand both through organic growth and acquisitions. EUnet, formed in 1982, is a leading European Internet service provider and derives 90 per cent of its revenues from business users. It has developed a network of national and regional service providers.

"The consolidation of EUnet into a single company is an important step to strengthen our market position and develop EUnet to meet the challenges of an increasingly competitive and demanding Internet market requires," said Mr Wim Vink, EUnet International's chief executive.

The company is expected to seek a listing on Nasdaq, the screen-based US exchange.

This announcement appears as a matter of record only



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Banco Totta & Acores S.A.

(London Branch)

Agent

Banco Totta & Acores S.A.

London Branch

TOTAL 1996 NOTICE OF SHAREHOLDERS' MEETING

The Shareholders of TOTAL are hereby informed that a Combined General Meeting (Annual Ordinary and Extraordinary) is to be convened on Tuesday, June 4, 1996, at CNIT La Défense - Amphithéâtre Goethe - 2, place de la Défense - 92053 Paris La Défense at 10 a.m., on the following agenda:

I Annual General Meeting

- Report of the Board of Directors and Auditors' general report on the transactions and accounts for the year ended December 31, 1995
- Approval of these reports, the accounts and the balance sheet at December 31, 1995
- Appropriation of net income, determination of the dividend, election to receive the dividend in cash or in the form of shares
- Special Report of the Auditors on the agreements covered by

Article 101 of the French Companies Act of July 24, 1966

- Allocation to the special long-term capital gains reserve
- Authorization to be given to the Board of Directors to trade in the Company's shares on the Stock Market in order to stabilize the price
- Appointment of two new Directors
- Determination of the amount of Directors' fees.

II Extraordinary General Meeting

- Report of the Board of Directors
- Special Report of the Auditors
- Authorization to be given to the Board of Directors to award stock options to the management and key employees of the Company and subsidiaries, on terms to be decided by the Extraordinary General Meeting
- Authorization to be given to the Board of Directors to act on the authorizations to issue securities while a takeover bid is in progress
- Approval of amendments to the Bylaws resulting from letters exchanged between the French State and the Company in February/March 1996
- Amendment to article 19 of the Bylaws related to the term of office of Directors
- Amendment to article 28 of the Bylaws related to the appointment of Directors' fees

All shareholders are entitled to participate in this General Meeting, whatever the number of shares held, or to be represented at the Meeting by another shareholder or an officer of the Meeting, or by their spouse, or to cast postal votes

In order to participate in or be represented at the Meeting:

- holders of registered shares must have the shares registered in their names at least five days prior to the date of the Meeting;
- holders of bearer shares should, at least five days prior to the date of the meeting, provide evidence that the shares are being held in a blocked account, in the form of a certificate issued by the financial intermediary holding the record of the acquisition. Such certificate should be sent to Banque PARIBAS, Service des Assemblées, 34 rue des Mathurins, 75008 Paris. The shares may not be released for possible sale until after the date of the last Meeting at which the quorum requirement is met.

Forms of proxy and postal voting forms, together with entry cards, may be obtained on request from Banque PARIBAS.

As required by law, shareholders are reminded that:

- Shareholders wishing to cast a postal vote may obtain the appropriate form by writing to the Company TOTAL, Direction

des Affaires Juridiques et des Accords, DEF A. 201, Tour TOTAL 24, cours Michelet - 92069 Paris La Défense, or Banque PARIBAS, Service des Assemblées, by registered letter with acknowledgement of receipt

In order to allow time for such forms to be issued, requests must be received at the Company's head office or by Banque PARIBAS, Service des Assemblées, not later than six days prior to the date of the Meeting

The duly completed form must be returned to the Company's head office or Banque PARIBAS, Service des Assemblées, at least three days prior to the date of the Meeting

In the case of holders of bearer shares, postal votes will only be accepted subject to prior receipt of the certificate evidencing the fact that the shares are being held in a blocked account, as provided for in b) above

Any shareholder who has cast a postal vote will not have the right to participate in the Meeting in person or to give a proxy to any other person

Shareholders may obtain the documents provided for in Articles 133 and 135 of the Decree of March 23, 1967, by writing to the Company's head office TOTAL, Direction des Affaires Juridiques et des Accords, DEF A. 201, Tour TOTAL 24, cours Michelet - 92069 Paris La Défense, France, or to Banque PARIBAS, Service des Assemblées, 34 rue des Mathurins, 75008 Paris, France.

Shares registered in the name of the same holder for at least two years as of the date of the General Meeting carry double voting rights (article 37 paragraph 7 of the bylaws).

Nevertheless, the transfer of registered shares to another registered shareholder in connection with a succession, the sharing of the joint estate of a husband and wife, or a disposition inter vivos in favour of a spouse or a relative in the line of succession, shall not be deemed to represent a transfer of ownership for the purpose of determining the above qualification period or the eligibility for double voting rights. (article 37 sub-paragraph 8 of the bylaws).

THE BOARD OF DIRECTORS



TOTAL SOCIÉTÉ ANONYME CAPITAL STOCK: FF11,814,726,050 R.C.S. NANTERRE B 542 051 180
HEAD OFFICE: TOUR TOTAL - 24 COURS MICHELET, PUTEAUX (HAUTS DE SEINE) FRANCE

May 1996

COMPANIES AND FINANCE: UK

Standard Life plans to sell stake in Bank of Scotland

By George Graham,
Banking Correspondent

Bank of Scotland's share price climbed 14p to 252.5p yesterday after Standard Life, the assurance group, said it was working on the sale of all or part of its 32.2 per cent stake in the bank.

But bankers said the stake was more likely to be placed with UK institutional investors than sold to a potential predator, and doubted that the sale would trigger a bid.

Standard bought the stake from Barclays Bank in 1985, not long after a hostile bid from Hongkong and Shanghai Bank for its Edinburgh competitor, Royal Bank of Scotland, had been blocked by the

Monopolies and Mergers Commission amid a blaze of Scottish economic nationalism. Early hopes that the alliance might lead to a more concrete

Standard bought the stake in 1985 after a hostile bid from Hongkong and Shanghai Bank for Royal Bank of Scotland had been blocked

partnership have produced little. But Bank of Scotland's strong profits record has helped the stake to grow sixfold. Today it is worth almost £350m, accounting for around 7 per cent of Standard's UK equity portfolio.

Mr Scott Bell, Standard's group managing director, said

this was "a large proportion for a single investment". "Standard Life continues to have confidence in Bank of Scotland's prospects and strat-

egies, but we nevertheless believe it could be in the interests of our policyholders to rebalance our equity portfolio by realising some or all of our stake in Bank of Scotland," he added.

Standard, which is being advised on the sale by Lazard Brothers, is most likely to keep a normal investment stake in

Bank of Scotland, but in the interests of its policyholders the life insurer is obliged to remain open to anyone ready to offer a premium for its entire stake.

The possibility of a bid drew immediate warnings from Scottish politicians and from trade unions. Mr Alex Salmond, leader of the Scottish Nationalist Party, said the government should declare now that any hostile bid would be referred to the MDMC.

Any bidder for Bank of Scotland would be expected to offer more than 300p per share, valuing the bank at around £3.6bn. Bank of Scotland is generally reckoned to be one of the most efficient UK banks.

Ladbroke hopes to reunite Hiltons

By David Blackwell

Ladbroke, which owns Hilton International, said yesterday that talks were continuing with Hilton Hotels of the US on "a range of ways of reuniting the Hilton brand".

Talks on a range of options, including a possible merger of the hotel activities, were at a very early stage, said Mr Peter George, chief executive, after the hotel and gaming group's annual meeting in London.

"There have been no decisions - we are looking at what may work," said Mr George, who has had a couple of meetings with Mr Stephen Bollenbach, chief executive of Hilton in the US.

"Steve seems to share my view that something can and should be done - and that's where we are," he said.

The two expected to meet again soon, but no definite date had been arranged.

Earlier Mr John Jackson, chairman, told shareholders that profits in the first four months were ahead of last year, with the hotel side performing strongly.

Bell Cable losses widen despite revenue rise

By Christopher Price

Bell Cablemedia, the UK's third largest cable operator, yesterday reported deeper losses and a sharp rise in income for the first quarter as it attracted more subscribers while continuing to build its network.

Net losses of £19.5m compared with £12.2m net income in the same period in 1995. However, last year's figure was inflated by a one-off gain of £9m from the flotation of Videotron, in which Bell retains a 26 per cent stake.

The latest quarter's figure was also affected by the financing costs associated with a £275m loan and the higher depreciation costs of the

expanded network.

Losses before interest, tax depreciation and amortisation were £3.5m (£2.2m) and before tax, losses of affiliates and minority interest, the deficit reached £17.97m (£2.5m profit).

Total revenues rose by 87 per cent to £15.8m. This included a near doubling of revenues from telephony to £8.9m. The number of telephone subscribers grew from 61,000 to 111,000 year-on-year, with 12,000 added over the last quarter. The churn rate the level at which customers fail to renew - fell slightly to 16.8 per cent.

There were similar increases in television subscription rates, taking the total to 128,000. Revenue rose from £3.8m to £5.9m. Television churn fell by 2.7 per-

centage points to 24.5 per cent. Mr Dan Somers, chairman and chief executive, said Bell had changed its marketing methods and the results showed the first reward from this. He refused to comment on whether it would pursue its option to buy the remainder of Videotron.

Bell has also changed the method of calculating penetration rates - a measure of what percentage of potential subscribers opt to take cable. The revised rates represent the number of homes passed, as opposed to the number of homes marketed. Penetration for television rose to 18.7 (17.9) per cent. Under the previous method, they were steady at 22.2 per cent.

US side hits Premier Health

By Greg McIvor

Premier Health Group, the health services company, warned yesterday that its US nursing subsidiary had struggled to fulfil some hospital contracts for 1996 due to changed visa requirements.

Mr Ephraim Barsam, chief executive, said changes in immigration practice had prevented it from employing sufficient numbers of non-US

contract nurses. He gave no details of the extent of under-performance but said the company still hoped to make a profit in 1996.

Mr Barsam forecast the adverse US trend would be reversed by the end of the third quarter through its use of "more traditional" immigration procedures.

Its new UK subsidiary had agreed a number of hospital contracts which would substantially offset the US shortfall, he added.

RESULTS

	Turnover (£m)	Pre-tax profit (£m)	EPS (p)	Dividends (p)	Total for year	Total for year
Anglo Pacific Resources	3.3 (4.1)	8.6 (1.7)	0.8 (1.5)	0.3 (0.4)	1.7	4.5
Bell Cablemedia	15.8 (15.5)	19.5 (1.7)	5.6 (1.7)	0.3	0.25	0.8
Penner	125.3 (105.5)	8.25 (5.5)	5.6 (1.7)	0.3	0.25	0.8
Granville	13 (10)	0.4 (1.3)	0.5 (1.7)	0.3	0.25	0.8
Kwik	58.7 (50.5)	4.01 (7.82)	0.55 (1.7)	0.3	0.25	0.8
Midland	4.48 (2.82)	1.43 (0.21)	1.51 (1.7)	0.3	0.25	0.8
Investment Trusts						
P&G Eurofund	296.6 (215.2)	1.05 (0.887)	1.52 (1.47)	0.3	0.25	0.8

Earnings shown basic. Dividends shown net. Figures in brackets are for corresponding period. *US\$100 stock. *Comparative retained. *After exceptional charge. *After exceptional credit. †On increased capital. ‡Foreign income dividend. ‡On reduced capital. ‡On stock.

NEWS DIGEST

Easter timing helps BAA

The seven airports owned by BAA handled 7.6m passengers in April, an increase of 1.9 per cent on the year before. BAA said the small increase was the result of Easter falling earlier this year than in 1995.

BAA said that taking March and April together, there was a 6.3 per cent increase over last year. Scheduled European traffic in April was 1 per cent lower than last year. European charter traffic was 9 per cent down.

However, there was an increase in long-haul traffic. North Atlantic traffic rose 3 per cent and other routes 5 per cent. Domestic markets and traffic between Ireland and the UK rose 9 per cent.

London's Heathrow airport saw traffic fall 1.4 per cent. Traffic at Gatwick was up 2.3 per cent and Stansted passenger numbers rose 20 per cent.

Michael Skapinker

Trio in Hong Kong merger talks

Trio Holdings is in talks with Euro Brokers Investment and Yagi Euro Corp with a view to merging their respective money broking interests in Hong Kong.

Martin Brokers (Hong Kong), its Hong Kong subsidiary, employs about 50 people and contributes about 10 per cent of the group's worldwide operations. In the year to September Trio made pre-tax losses of £11.8m and closed desks in London, Hong Kong and Tokyo, pulling out of Singapore entirely.

Euro Brokers and Yagi Euro operate in the region through Yagi Euro (Hong Kong), which is similar in size to Martin Brokers (Hong Kong).

Mr David Hagan, Trio executive chairman, said: "The non-financial merger of our interests with those of our competitor will make a stronger unit." He expected the deal to be completed by the end of June.

Sophy Buckley

Oxford Molecular \$3.25m buy

Oxford Molecular, developer of software for designing pharmaceuticals, has conditionally agreed to buy DPS Acquisition of the US, a subsidiary of Cray Research. It is paying \$3.25m (£2.13m) for the intellectual property rights relating to its UniChem software. Some \$3.5m of the purchase price will be satisfied by the issue of Oxford Molecular shares, the rest in cash.

Molecular has also concluded an agreement under which Cray will become a distributor of the UniChem software product, and Molecular will develop future versions of the product and receive a Cray supercomputer.

The proposed acquisition is partly conditional on the new ordinary shares being admitted to the Official List.

Westminster Health share sale

Tenet Healthcare Corporation, the US hospitals business, has disposed of its entire 42 per cent stake - for some £85m - in Westminster Health Care Holdings, which runs retirement and nursing homes.

The sale of the 26.9m shares was arranged via Tenet subsidiary NME International (Cayman). They were sold to Cazenove in a bought deal and placed with investment clients by Cazenove in conjunction with Collins Stewart.

Tenet's stake was reduced to 42 per cent when Westminster floated in 1993 and the US company agreed not to sell for three months after Westminster's rights issue last August.

GPG sells 850,000 Pico shares

Guinness Peat Group, the UK investment vehicle of Sir Ron Brierley, the New Zealand entrepreneur, is selling 850,000 shares in Pico, a US insurance and investment holding company to Ondaatje Corporation, the Canadian investment group. The sale will be made in two tranches for a total of \$15.3m (£10m).

GPG held 2.06m Pico ordinary shares, about 40 per cent, and at December 31 their book value was \$5.58m. In 1995 GPG's share of Pico's income contributed \$4.78m to pre-tax profits. GPG will retain 1.21 shares, representing 24 per cent, and Pico will accordingly cease to be an associate.

Anglo Pacific Resources slips

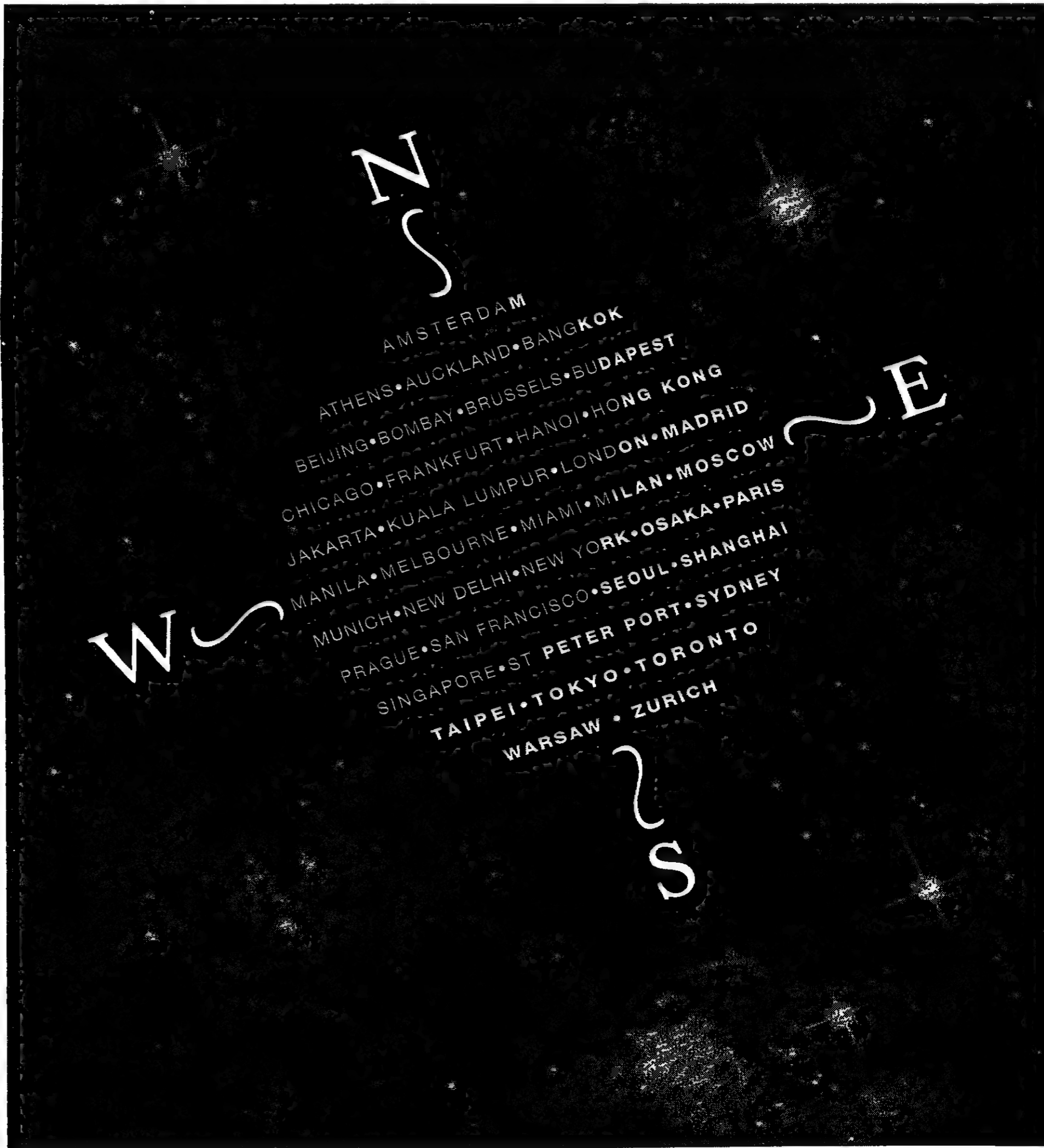
Anglo Pacific Resources, USM-quoted mineral exploration and coal group, tipped from a restated 1995,000 pre-tax loss into a deeper \$6m loss for the year to December. It said Ledmore Marble, its UK explorer and developer, was mostly responsible and that it would be rationalised.

APR took a \$1.8m restructuring charge for changes intended to make more money from its Australian coal operation and Fife Silica Sands, and to cut the size of its head office.

Sales slipped from \$4.1m to \$3.3m, and the operating loss increased from \$479,000 to \$2.8m, after a \$3.49m cost of accelerated depreciation, mostly for Fife Silica Sands.

A change in accounting policies led to net assets being reduced by \$22.2m to \$9.5m; the group reversed last year's decision to revalue tangible and intangible assets after consulting its new auditors, Price Waterhouse.

Losses per share increased from 1.50p to 8.6p. The company is shortly to ask shareholders to agree to a reduction in share capital that will eliminate the deficit on the profit and loss account and allow the company to resume dividend payments. The company plans to take a full listing this year.



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Pioneer appoints a new president

Pioneer, the Japanese specialist maker of audio-visual equipment, has named Kaneo Ito as its new president. He will be succeeding Setai Matsumoto, who is to become chairman and representative director, following approval at a shareholders meeting scheduled for June.

Ito, who joined Pioneer after a stint at a textiles company, has had experience marketing the company's products in Europe, where he spent a total of about 12 years, and has worked for many years in the company's international field, as director of international business.

His appointment to the top job at Pioneer is a measure of the growing global nature of Japanese consumer electronics companies. Nobuyuki Idei, who was appointed president of Sony last year, has also spent many years in Europe.

The road ahead does not look smooth for Ito. Pioneer, which has developed its business in recent years on the basis of its laser video discs,

has seen demand for laser discs, particularly in the karaoke market, slump in recent years.

The company has suffered a drop in recurring parent profits - from ¥15.5bn in the year to March 1993 to ¥632m last year. In the last financial year (to March 1996) Pioneer is expected to post a recurring loss of ¥15bn, mainly due to poor karaoke laser disc sales and inventory build-ups in the US and Europe.

Michiko Nakamoto

Fresh top echelon appears at Novartis



Ciba and Sandoz, the Swiss drugs companies in the process of merging to form Novartis, have revealed the top 200 people to run the new company. They are the country presidents and sector heads around the world. They will take up their posts when the company becomes operational

after regulatory approvals.

Under Pierre Douaze, head of pharmaceuticals - easily the biggest division - Paul Herrling of Sandoz will be responsible for drug discovery. Drug development will be run by Jörg Reinhardt and William Jenkins from Ciba, who will handle pre-clinical and clinical development respectively.

Doug Watson, currently president and chief executive of Ciba US, will hold the same post for Novartis in the US. His Sandoz counterpart, Bill Fulagar, becomes president and chief executive of Novartis in the UK.

Stanley Sherman, chief financial officer of Ciba US, becomes chief executive officer and president for Specialty Chemicals North America (US/Canada). The specialty chemicals businesses will merge as part of Novartis and then become an independent company before the end of the first quarter of 1997.

Bryan Kerr (pictured) becomes regional manager of specialty chemicals for north-west Europe, and head of the specialty chemicals business support centre for north, north-west Europe and the Benelux countries. Ciba and Sandoz have formed inte-

gration teams and task forces to study ways of joining the two companies' operations. Further appointments for Novartis and Specialty Chemicals are expected in June.

Daniel Green

Turbulent times for Japanese banks

Humbled by piles of bad loans, and under strong political pressure to show some remorse for their role in the collapse of the country's scandal-ridden housing loan companies, Japan's banks are reluctantly dropping the pilot.

Three of the largest banks have in the last month announced the early retirement of their president. Industrial Bank of Japan boss Yo Kurosawa is being replaced by his deputy Masao Nishimura. Fuji Bank president, Toru Hashimoto, is making way for the current number two, Yoshiro Yamamoto, and Mitsui Trust chief, Ken Fujii is to be replaced by vice-president Kei Nishida. All the changes are due to take place next month.

Fuji's Hashimoto and Mitsui Trust's

Fujii were obvious candidates to be forced to fall on their swords. They were, until last month, respectively head of the country's main bankers' association and head of the trust banks' association. In Japan it is customary for those in such positions of responsibility without power to do the decent thing when times are rough.

But the fate of IBJ's Kurosawa, one of the few colourful figures in Japan's grey banking world, suggests the cull of bank heads may extend beyond the reach of office holders at industry associations.

Cabinet ministers and finance ministry officials have called upon all banks' senior managers to reflect carefully on their own culpability for the financial mess of the last few years. If, as would seem prudent, the bank bosses take them at their word, the procession may only have just begun.

All three former presidents will remain in senior positions at their banks, though. Hashimoto and Fujii will both become chairman of their respective institutions. Kurosawa will be staying on at IBJ as an adviser.

Gerard Baker

ON THE MOVE

■ Frank Rüthland, currently responsible for the treasury department of the DEEPA-BANK, has been appointed general manager.

■ Peter Wack, 49, general manager of the textile fibres business unit, has been appointed to the management board of ARZO NOBEL FASER.

■ Robert Brougham becomes senior vice president and managing director, Asia Pacific division for HELLER INTERNATIONAL GROUP, the international arm of Heller Financial, a subsidiary of Fuji Bank.

■ Gerald Sokol, vice president of finance of TELECOMMUNICATIONS Inc's TCI Communications unit, has resigned.

■ Judith Campbell becomes senior vice president and manager of PNC BANK CORPORATION's direct bank unit. She was senior vice president and head of operations and technology at Midland Corporation.

■ Marcus Randolph has been appointed president and director of FIRST DYNASTY MINES. This coincides with the restructuring of First Dynasty and the move of its corporate office to Singapore.

■ Dennis Raney, 68, joins CALIFORNIA MICROWAVE as executive vice president and chief financial officer. He was

previously chief financial officer for General Magic Inc.

■ Joseph Levato, executive vice president and chief financial officer, is joining the board of TRIARC. John Barnes, executive vice president and chief financial officer of Graniteville, Triarc's textile subsidiary, which was sold to Avondale Mills, has been appointed as senior vice president. Barnes is expected to become Triarc's chief financial officer when Levato retires later this year.

■ Charles Van Swearingen has joined MICHIGAN NATIONAL CORPORATION, now owned by National Australia Bank, as chief financial officer and executive vice president. He was previously senior vice president and director of financial planning for Integra Financial Corporation in Pittsburgh, Pennsylvania.

■ David Gordon, has been appointed by manufacturer of specialty materials DEKTER CORPORATION, as corporate vice president and senior division president of Dexter Nonwovens.

■ Jymchiro Miyazu has been appointed as president of NIPPON TELEGRAPH AND TELEPHONE, replacing Masashi Kojima, who becomes chairman. Shigeo Sawada becomes a vice chairman.

■ Richard Slonker has been appointed senior vice president and chief technical officer of AMERICAN SKY

BROADCASTING

■ Masao Kobayashi, senior managing director of NIPPON PAPER INDUSTRIES, has been appointed as president, replacing Takeshiro Miyashita, who becomes chairman.

■ Laurent Vieilleville has been appointed as managing director of French pharmaceuticals group PIERRE FABRE, with responsibility for group strategy. He joins from Lazard.

■ Arthur Lipper has been appointed to the newly created position of chairman at BAT INTERNATIONAL. He was previously chairman of privately held British Far East Ltd, of San Diego.

■ Bruce Churchill has been appointed to the newly created position of deputy chief executive officer of News Corporation unit STAR TV. He was previously senior vice president, finance, for Fox Television.

■ Carlo Salvadori has resigned as managing director of BANCO AMBROSIANO VENETO.

■ Eduard Kauffmann, former director of Goldman Sachs in Hong Kong, has been named a managing director and head of BANKERS TRUST'S Capital Markets Business in Zurich.

■ Craig Huff, a principal at Ziff Brothers Investments, has been appointed to the board of SANTA FE ENERGY RESOURCES.

■ David Emerson, president

and chief executive officer of the Vancouver International Airport Authority, has been elected as a director of BC TELECOM.

■ Joseph Formichelli has been appointed as president and chief executive of HAYES MICROCOMPUTER PRODUCTS. His previous post was as vice president of worldwide operations for IBM PC.

■ Sam Levin, senior director of strategic sales at Mindscape, has been appointed to the board of TOTALLY HIP SOFTWARE.

■ Carlos Perez de Brido has been appointed as president and managing director of Spanish oil group CEPSA.

■ R. Blom, chairman of the board of directors at publisher PERSCOMBINATIE and board member of publisher PCM Uitgevers has resigned. C. Smaling, currently PCM's board chairman, becomes acting chairman.

■ Dieter Dräger has been appointed chairman at RWE-DEA AG FUER MINERALOEL UND CHEMIE of Hamburg, with effect from January 1997. He succeeds Peter Koch, who is retiring.

■ Georg Schoening has been appointed board member from the same date. He will be responsible for the chemicals division.

■ Rainer Marquart, 41, has resigned from the management board of ESCOM AG and

management of Escom Computer Vertriebs.

■ Ubaldo Livio, has been nominated a managing director of Italian TV and publishing group MEDIASET. Livio is already on the board of Mediaset and also a board member of Fininvest.

■ Lex Vermeeren, who stepped down as deputy chairman of the management board of AKZO NOBEL on May 1, has been appointed chairman of the supervisory board following the retirement of the former chairman Hays van der Werf.

■ Luis Nido de Rivera has become president of DRESDNER BANK MEXICO. He was formerly president of Arrendadora Financiera Mexicana and of Factoring Corporative.

■ Aldo De Serio has been appointed chairman of SIRT, the engineering division of the Stet group, replacing Francesco Gelfi.

■ Jan Meirose has been appointed a non-executive director of WHARF (HOLDINGS). Meirose is chairman of OCL, a computer services company wholly-owned by Wharf.

■ Clive Ingham has been appointed by MOORE CORPORATION, the Toronto-based information services group, as president of Moore Europe services group, in Paris.

■ Joel Gold has joined LT

LAWRENCE & Co., the New York-based investment banking and brokerage firm, as executive vice president in charge of the firm's investment banking department. He was previously managing director, investment banking, of Fichtel, Detweiler & Co.

■ Gary Lieberman, a managing director in the fixed income division, has been named head of BEAR STEARNS INVESTMENT ADVISORS, a subsidiary of Bear, Stearns & Co providing investment advisory services to participants in the international mortgage asset-backed and global fixed income markets.

■ Warren Lee has been appointed as head of Asian Securities at DEUTSCHE MORGAN GRENFELL. He joins from Barclays de Zoete

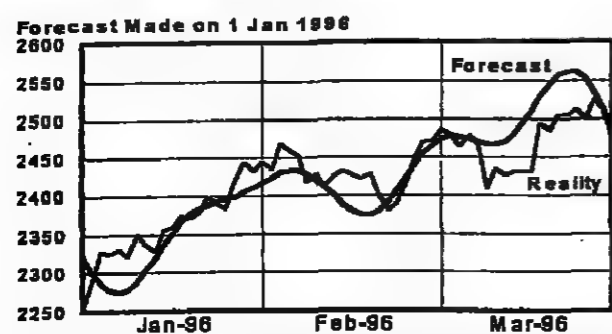
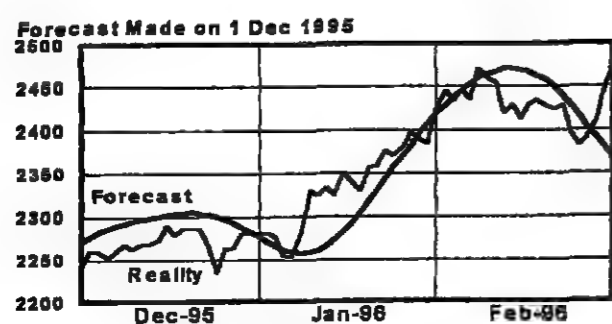
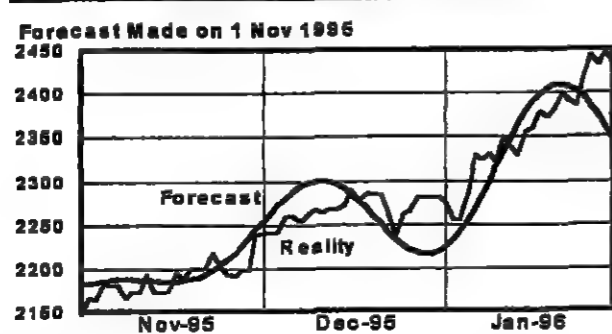
Weld, New York. Tan Yong Seng has joined Deutsche Morgan Grenfell as head of equities, Indonesia.

International appointments

Please see announcements of new appointments and retirements to 44 171 873 3926, marked for International People. Set fax to 'fine'.

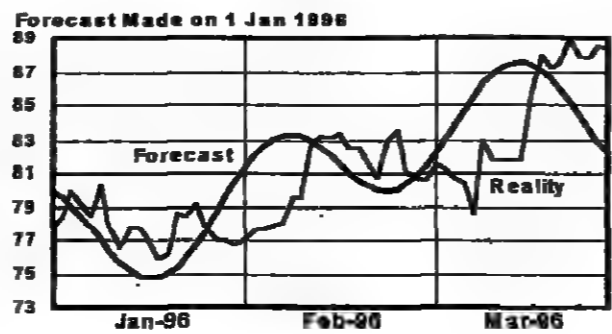
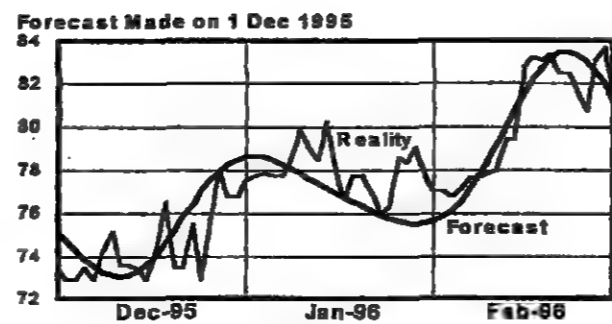
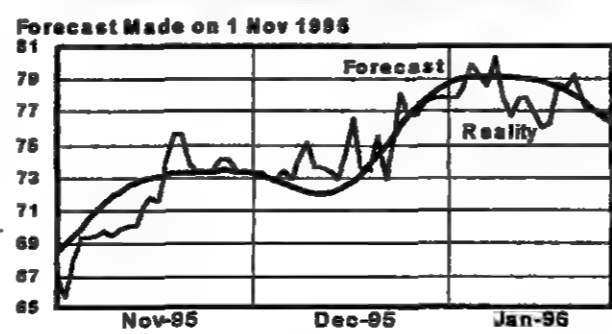
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FINANCIAL AND COMMODITIES FORECASTS

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NYCOMED ASA

(Incorporated in Oslo, Norway)

The business of Nycomed ASA and its subsidiaries is pharmaceuticals.

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with par value NOK 4.00 per share

Copies of the Listing Particulars relating to the introduction have been published and will be available for collection only during normal business hours on any weekday from the date of this notice up to and including 28th May, 1996 from:

Nycomed ASA
P.O. Box 9010 Maj
N-0401 Oslo, Norway

NatWest Wood Mackenzie & Co. Limited
135 Bishopsgate
London EC2M 3JY

Copies of the Listing Particulars are also available only during normal business hours for collection from the Company Announcements Office, the London Stock Exchange, Capital Court entrance, off Bartholomew Lane, London EC2N 1HP from the date of this notice up to and including 16th May, 1996.

14th May 1996

Russia digs deep into platinum stocks

By Kenneth Gooding,
Mining Correspondent

Russia dug deep into its stockpiles to export record quantities of platinum and palladium to the West last year and raised about US\$1bn that it desperately needed to help cover its budget deficit.

The advantage was taking advantage of the boom in sales of electronic equipment such as computers, mobile telephones and wide screen televisions that helped to drive platinum and palladium demand to record levels, according to the latest market review by Johnson Matthey, the world's biggest platinum group metals marketing group.

Platinum is used, among other applications, in the equipment for making high quality glass for liquid crystal displays and cathode ray tubes for desk top monitors. The metal is also increasingly being employed to coat data storage discs.

Palladium is an essential raw material in most of the multi-layer ceramic capacitors used in electronic equipment.

JM estimates that last year Russia sold 1.28m troy ounces of platinum to the West, up from the previous record 1.01m

Platinum and Palladium (000 troy ounces)					
	1995	1994	Palladium	1995	1994
Supply			Supply		
South Africa	3,370	3,180	South Africa	1,800	1,500
Russia	1,280	1,010	Russia	4,220	3,300
North America	230	220	North America	470	410
Others	100	140	Others	70	70
Total	4,980	4,530	Total	6,340	5,280
Demand	4,790	4,560	Demand	6,100	4,870
Stocks change	+190	+30	Stocks change	+240	+410

Source: Johnson Matthey

ounces in 1994. The platinum price peaked at \$480 an ounce last year but was back to \$400 at the end of 1995 and the annual average was \$424.32.

Russia also sold 27 per cent more palladium than in 1994 as its exports rose from 3.3m ounces to 4.2m. The palladium price averaged \$151.28 an ounce last year.

"The need for revenue was probably the principal motive for the jump in Russian exports," says Ms Alison Cowley, author of the JM review. "But the Russians are also thought to be concerned that higher prices might trigger increased substitution of palladium in the electronics sector."

Palladium shipments have risen by nearly 50 per cent in

the past two years and nearly all the extra metal originated in Russia. JM estimates at least half of last year's Russian supplies were drawn from state reserves.

Apart from deliveries to the electronics industry, which increased by 19 per cent to 2.65m ounces last year, palladium sales also benefited from a big switch from the use of platinum to palladium in automotive anti-pollution catalysts. Autocatalyst demand increased by 77 per cent to 1.73m ounces.

Total palladium demand was 35 per cent ahead at 6.1m ounces. Supply rose by 30 per cent to 6.34m ounces, mainly because of shipments from Russia.

JM expects continued growth in palladium consumption for electronics and autocatalysts in 1996 and suggests that newly mined supplies will be augmented by further substantial sales from Russian stocks.

The palladium price is predicted by JM to trade between \$120 and \$150 an ounce this year.

It also suggests the platinum price will range between \$390 and \$430 an ounce for the rest of 1996.

JM says about 600,000 ounces of the Russian platinum sold in 1995 was drawn from government stocks. Russia says details of platinum and palladium stocks are a state secret. Ms Cowley says: "We can assume, though, that palla-

dium stocks are quite a bit higher than those of platinum because Russia used very little palladium domestically. Russia would like to wind down its platinum stocks gradually but the pressure has been on to produce revenue. It is unlikely that Russian platinum stocks will last into the next century."

Platinum demand last year rose to a record 4.79m ounces, according to JM, while supply was up by 10 per cent to 4.98m ounces. JM predicts that industrial demand for platinum, which in 1995 reached the highest level for 15 years - 990,000 ounces - will remain firm in 1996 while demand from the automotive industry is expected to be "stable". A "modest" rise in demand from the jewellery industry is expected. However, South African supplies are predicted to increase and the Russians already have indicated they will maintain sales at 1995 levels. Ms Cowley points out: "The platinum supply surplus last year was equivalent to only two weeks consumption but these surpluses have a disproportionate impact on market sentiment."

Platinum 1996: Free from Johnson Matthey, 78 Batten Garden, London EC1N 3JP, England.

MARKET REPORT LCE cocoa futures touch 8-year highs

London Commodity Exchange COCOA futures raced to eight-year highs in early dealings yesterday on investment fund buying and speculative covering. But prices ended off the peaks after profit-taking and possibly some producer selling trimmed the gains, traders said.

The July contract closed \$28 up on the day at \$1,136 after touching \$1,138 - the highest level since January 1988. Squeeze fears persisted, keeping the September contract at a high premium to March 1997.

At the London Metal Exchange trade and commission house buying helped to lift COPEX prices in late trading, traders said.

The ending of a 10-day strike at Codelco's Chuquibambilla, the world's largest copper mine, in Chile earlier helped to dampen sentiment.

Miners returned to work at the state-owned, 610,000 tonnes-a-year unit on Sunday and Codelco said production processes would be "totally normalised" within 48 hours, although it might still have to make minor copper purchases to meet contracts obligations to customers.

Compiled from Reuters

Privatisation close for Philippine's Nonoc nickel mine

By Edward Luce in Manila

The Philippine government's long quest to privatise Nonoc, the country's largest nickel mine, will be sewn up this week when the operation is sold off to a British-led consortium for US\$350m.

The sell-off, which will be the biggest mining privatisation in the country's history, comes ten years after the operation was foreclosed because of bad debts and falling world nickel prices.

Led by Pacific Nickel - a British consortium in which National Westminster Bank's Hong Kong affiliate, Westlock, Natwest, and Minpro, the Australian company, have interests - the new owners will pay the money to the government over 12 years after a three-year grace period.

The mine, on Surigao Island, central Philippines, will be rehabilitated over the next three years, starting with an initial capacity of 45m lb of nickel a year, rising to 85m lb at full stretch.

The US\$350m package also includes a 35,000 tonnes-a-year refinery, a 250MW power plant and settlement of various debts

from the previous ownership. Apart from nickel metal, the mine, which will employ about 3,000 workers, is thought to contain cobalt sulphide and nickel sulphide reserves.

"This is the end of a very long process since Nonoc was taken into government hands in 1986," said Mr Gonzalo Santos, chief of the asset privatisation trust in Manila. "Both parties are satisfied that the deal is fair and equitable."

Officials, who say the deal is likely to be signed on Thursday, estimate that it could cost as much as US\$300m to rehabilitate the mothballed operation, which has been maintained at government expense since it was foreclosed.

The consortium, which will also be minority owned by Evaristo Narvaez, a local shareholder, is expected to divide the rehabilitation costs between equity and debt financing.

"Rehabilitation is likely to be expensive because the mining equipment for Nonoc needs to be specifically tailored to the mine's unusual needs," said Mr Santos.

PNG may float mineral company 'within months'

By Nikk Tait in Sydney

A notation of Papua New Guinea's Mineral Resources Development Company could take place "within the next few months", Sir Julius Chan, PNG's prime minister claimed in Sydney yesterday.

The MRDC holds the PNG government's stakes in a number of large mining projects in PNG - including the Kumbuli oil development, and the Ok Tedi, Porgera and Milne Bay mines. Its assets have been valued at around 800m kina (US\$600m).

Sir Julius acknowledged that some advisers and observers had argued that the much-mooted float of a 49 per cent

interest in MRDC could not realistically be attempted until PNG reached agreement with the World Bank over the second tranche of a "structural adjustment" programme designed to address the country's serious economic situation.

The World Bank recently opened a 90-day window - ending on July 17 - during which it wanted to see previously agreed reforms implemented, before continuing with the programme.

Sir Julius said, however, that he did not view World Bank agreement as a pre-condition to the MRDC float. "It would be nice if we could conclude the World Bank [talks] but

even without the conclusion, [the float's] prospects are still very good," he said.

He claimed that the spread of interests within MRDC should make it a viable investment vehicle and that the current gold price was also helpful.

Asked whether a trade sale of the assets held by the MRDC was still a possibility, rather than a float, Sir Julius played down, but did not entirely rule out, the option. "At this stage we are going for a float," he said, "but if someone wants to come in over the float it's a lot cleaner."

In an effort to rally flagging investment support for PNG, the prime minister told a min-

ing investment conference that there would be a moratorium on "any further amendments to PNG's policies governing the mining and petroleum sector" until the year 2000.

Assuming his government is re-elected next year, the only exception might be "possible adjustments to landowner equity regulations".

Sir Julius confirmed that on all new petroleum agreements, landowners would get 2 per cent "free equity" out of the state's 22.5 per cent share - leaving 77.5 per cent with the developers. The developers and the state would jointly fund the landowners' share. He was less precise on mining projects, but said that the government

was looking at up to 5 per cent "free equity" for landowners, although that "will depend entirely on a project by project basis".

But the PNG prime minister admitted that greater access to countries within the former Soviet Union and to mining opportunities in Latin America and parts of Asia now meant that there was big competition for exploration dollars. He quoted figures purporting to show up in petroleum exploration expenditure would increase from 117m kina in 1995 to 180m kina this year, but also admitted that mining exploration expenditure had slumped to just 38m kina in 1995.

Chicago grain prices bounce

By Laurie Morse in Chicago

Continuing rains and cool weather in the northern plains of the US Midwest hampered spring seedings over the weekend and helped boost grain prices at the Chicago Board of Trade yesterday morning.

Spring-planted wheat and maize have become critical to meeting world grain needs now that it appears the US winter wheat harvest is going to be the worst in nearly 30 years.

In its first official estimate of winter wheat production, the

US Department of Agriculture said farmers would reap just 1.96bn bushels of winter wheat this year, down 12 per cent from last year's poor harvest.

As traders expected, the agency said the worst drought in 100 years across the Midwest's southern plains, combined with killing winter weather, decimated the crop.

The report, based on a survey of crop conditions done May 1, put Kansas wheat production at 182.6m bushels. Kansas usually produces three-quarters of US winter wheat, and has not had a harvest

smaller than 200m bushels since 1963.

However, the agency also said that record high prices for wheat would greatly expand spring wheat seedings in the northern plains this season, and would also inspire farmers to seed maize in areas where wheat had failed if there were timely rains.

Chicago grain futures prices tumbled on Friday in response to those planting estimates, and on the USDA's forecast that world-wide wheat production would expand 8.2 per cent to 578.5m tonnes this year.

COMMODITIES PRICES

BASE METALS

LONDON METAL EXCHANGE

(Prices from Amstar/Amstar Metal Trading)

■ ALUMINIUM, 99.99% (per tonne)

Close 1650-1655 1654-1655

Previous 1655-1655 1655-1655

High/Low 1655/1655 1655/1655

AM Official 1655-1655 1655-1655

Karb close 1655-1655 1655-1655

Open int. 215,844

Total daily turnover 98,648

■ ALUMINIUM ALLOY 5 (per tonne)

Close 1365-1365 1365-1365

Previous 1370-1370 1410-1410

High/Low 1370/1370 1410/1410

AM Official 1365-1365 1365-1365

Karb close 1365-1365 1365-1365

Open int. 5,424

Total daily turnover 1,988

■ LEAD (per tonne)

Close 840-840 840-840

Previous 840-840 840-840

High/Low 840/840 840-840

AM Official 840-840 840-840

Karb close 840-840 840-840

Open int. 96,889

Total daily turnover 10,048

■ NICKEL (per tonne)

Close 8280-8280 8280-8280

Previous 8275-8275 8400-8400

High/Low 8275/8275 8400/8400

AM Official 8275-8275 8400-8400

Karb close 8275-8275 8400-8400

Open int. 41,982

Total daily turnover 18,338

■ ZINC, special high grade (per tonne)

Close 1090-1090 1090-1090

Previous 1090-1090 1090-1090

High/Low 1090/1090 1090-1090

AM Official 1090-1090 1090-1090

Karb close 1090-1090 1090-1090

Open int. 74,418

Total daily turnover 20,357

■ COPPER, grade A (per tonne)

Close 2770-2770 2770-2770

Previous 2770-2770 2770-2770

High/Low 2770/2770 2770-2770

AM Official 2770-2770 2770-2770

Karb close 2770-2770 2770-2770

Open int. 175,178

Total daily turnover 88,074

■ LME AM Official 6/5 ratio: 1.5173

LME Closing 6/5 ratio: 1.5159

Spot: 1.5141 3 mths: 1.5119 6 mths: 1.5104 9 mths: 1.5095

■ HIGH GRADE COPPER (COMEX)

Sett. Day's price change High Low Vol

May 120.10 +1.10 120.10 120.00 461,883

Jun 127.85 +0.85 127.80 125.30 109,306

Jul 125.55 +1.05 125.55 123.30 2,467,257

Aug 123.20 +0.85 - - - 4,740

Sep 120.70 +0.70 120.70 118.85 360,450

Oct 118.80 +0.60 118.80 118.00 401

Total 3,550,61,028

PRECIOUS METALS

■ LONDON BULLION MARKET

(Prices supplied by N M Rothschild)

Gold (Troy oz) \$ price £ equiv SFR equiv

Close 361.20-361.80 119 3,086

Opening 360.90-361.30 257.83 489.06

Morning fix 361.00 257.82 488.75

Afternoon fix 361.00 257.82 488.75

Day's Low 361.40-361.80

Previous close 362.20-362.60

Low/Low Mean Gold Lending Rates (in US\$)

1 month 4.47 6 months 4.06

2 months 4.38 12 months 3.91

3 months 4.28

silver fix p/roy oz US \$ equiv

Spot 354.15 537.50

3 months 353.90 537.50

6 months 353.40 537.50

9 months 353.15 537.50

12 months 352.90 537.50

Gold Options

Krugman 383-386

Maple Leaf 258-260

New Sovereign 61-63

Precious Metals continued

■ GOLD COMEX (100 Troy oz, \$/troy oz)

Sett. Day's price change High Low Vol

May 361.5 +0.7 361.5 360.0 38,195

Jun 361.0 +0.5 361.0 359.5 1,799

Jul 360.5 +0.3 360.5 359.0 2,654

Aug 360.0 +0.1 360.0 359.5 3,541

Sep 359.5 +0.1 359.5 359.0 4,821

Oct 359.0 +0.1 359.0 358.5 5,140

Nov 358.5 +0.1 358.5 358.0 5,140

Dec 358.0 +0.1 358.0 357.5 5,140

Total 43,788,834,498

■ PLATINUM NYMEX (100 Troy oz, \$/troy oz)

Sett. Day's price change High Low Vol

May 408.1 +0.1 408.1 407.5 18,149

Jun 407.6 +0.1 407.6 407.0 4,372

Jul 407.1 +0.1 407.1 406.5 4,372

Aug 406.6 +0.1 406.6 406.0 4,372

Sep 406.1 +0.1 406.1 405.5 4,372

Oct 405.6 +0.1 405.6 405.0 4,372

Nov 405.1 +0.1 405.1 404.5 4,372

Dec 404.6 +0.1 404.6 404.0 4,372

Total 1,027,168

■ PALLADIUM NYMEX (100 Troy oz, \$/troy oz)

Sett. Day's price change High Low Vol

May 134.6 +0.3 134.6 133.5 369,477

Jun 134.1 +0.3 134.1 133.0 369,477

Jul 133.6 +0.3 133.6 132.5 369,477

Aug 133.1 +0.3 133.1 132.0 369,477

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	Stocks	Closing Traded	Change on day
nd	4.0m	317	-7
.....	3.9m	904	+54
.....	3.0m	1010	-80
.....	2.9m	1620	+10
.....	2.9m	2770	+100

NEW YORK STOCK EXCHANGE PRICES

Continued on next page

Stock	PV	Shs	High	Low	Last	Chg	Stock	PV	Shs	High	Low	Last	Chg	Stock	PV	Shs	High	Low	Last	Chg
ACC Corp	0.12	78	1004	385	375	+15	Dep Ind	1.32	11	55	475	474	-1	Rock	0.10	5	105	9	9	9
Accord Inc	131051	117	1010	375	375	+15	Decon	0.20	17	94	94	94	0	-	-	-	-	-	-	
Accura Int	8	34	174	26	26	-1	Dep Tech	18	11	245	24	24	-1	Labore	0.7234	607	171	17	17	17
Accura Int	36	37	274	26	26	-1	Dep Int	18	12	255	274	274	0	Lam Res	0.18	2	250	114	112	+1
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Accura Int	31	37	274	26	26	-1	Dep Int	18	12	255	274	274	0	Lam Res	0.18	2	250	114	112	+1
Accura Int	31	37	274	26	26	-1	Dep Int	18	12	255	274	274	0	Lam Res	0.18	2	250	114	112	+1
Accura Int	31	37	274	26	26	-1	Dep Int	18	12	255	274	274	0	Lam Res	0.18	2	250	114	112	+1
Accura Int	31	37	274	26	26	-1	Dep Int	18	12	255	274	274	0	Lam Res	0.18	2	250	114	112	+1
Accura Int	31	37	274	26	26	-1	Dep Int	18	12	255	274	274	0	Lam Res	0.18	2	250	114	112	+1
Accura Int	31	37	274	26	26	-1	Dep Int	18	12	255	274	274	0	Lam Res	0.18	2	250	114	112	+1
Accura Int	31	37	274	26	26	-1	Dep Int	18	12	255	274	274	0	Lam Res	0.18	2	250	114	112</	

4 pm close May 13

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AMERICA

Technology sector leaps sharply ahead

Wall Street

Technology shares moved higher early yesterday while other sectors hovered near to Friday's closing levels as investors awaited key economic data due out later in the week, writes Lisa Branstetter in New York.

The Nasdaq composite was on course to set a second consecutive record high as it strengthened 9.26 points to 1,312.06 in early afternoon trading. The Pacific Stock Exchange technology index was 1.3 per cent ahead.

Hewlett-Packard, the computer and computer printer company, and Applied Materials, the semiconductor maker, both advanced ahead of their quarterly earnings reports due out later this week. HP added 63¢ or 4 per cent at \$112 and Applied Materials was up \$1.4 or 4 per cent at \$39.

Both Microsoft and Intel, the two largest companies on the Nasdaq, were also stronger. Microsoft climbed 32¢ to \$117 and Intel 11¢ to \$74.

Smaller companies were also strong as the Russell 2000 small-cap traded in record territory with a gain of 1.64 at 362.73.

Trading on other indices and in the bond market was lacklustre ahead of today's release of figures on retail sales and the consumer price index, but the yield on the benchmark 30-year Treasury bond remained below 7 per cent in early trading.

At 1pm the Dow Jones Industrial Average was 11.26 stronger at 5,528.40, the Standard & Poor's 500 rose 2.84 to 654.93 and the American Stock Exchange composite gained 3.31 at 594.64. Volume on the NYSE came to 186m shares.

Mexico up modestly

Mexico City was modestly firmer at midsession as the market consolidated last week's 3 per cent gain. The IPC index was up 20.02 at 3,236.16. SAO PAULO gained ground as the market awaited important congressional votes later this week. The Bovespa index was ahead 1.6 per cent at 64,338.

ValueJet slid 44¢ or 24 per cent to \$1.81 in the wake of Saturday's crash of one of the airline's DC-9s in the Florida Everglades. An analyst at Alex Brown & Sons downgraded the shares to "neutral" from "strong buy", citing worries that the discount carrier could lose passengers due to negative publicity stemming from the crash.

Healthsource lost 77¢ or 22 per cent at \$2.44 after the health maintenance organisation (HMO) reported weaker than expected first-quarter earnings. In the last quarter, Healthsource earned 22 cents a share, 3 cents below the mean estimate from analysts.

Canada

Toronto overcame early weakness to trade flat at midsession. However, shares were inhibited by a volatile bond market, hit by renewed concerns over Quebec, after the Canadian government said last Friday that it would intervene in a court case challenging Quebec's right to secede unilaterally.

Quebec's separatist government said that one option was to call a snap election and Mr Lucien Bouchard, the Quebec premier, held an emergency cabinet meeting to discuss options.

The TSE-300 composite index was just 0.39 higher by midday at 5,177.20 in volume of 41.9m shares.

Banks were heavily traded. Royal Bank of Canada rose 30 cents to C\$33.25, while Toronto-Dominion Bank jumped 40 cents to C\$24.05. Bank of Montreal rose C\$1 to C\$21.13. The Calgary-based group said last week that shareholders had approved a 10-for-one stock split.

EUROPE

Strong \$ helps Frankfurt to make good progress

Dollar strength and a generally optimistic mood helped FRANKFURT ahead. The Dax index rose 27.38, or 1.1 per cent, to 2,498.17, but just failed to breach the 2,500 level. In the Ibis, the market closed at 2,466.83.

Veolia was among the best performers, hitting an all-time high of DM78.80 before falling back to DM78.55, up DM2.58, and to DM78.95 in the Ibis. Volkswagen, ahead DM2.75 at DM533.35, recovered from a pre-bourse fall, after the vehicle manufacturer announced on Saturday that it was taking a 10 per cent stake in the Channel tunnel operator's 65-year licence.

PARIS was nervous and the CAC-40 index ended the session off 13.95 at 2,100.85 in turnover of 17.33bn.

There was plenty of interest in Valeo, as news emerged that TRW, of the US, was a front-runner to buy the 28 per cent stake held by Cerus, a company controlled by Mr Carlo De Benedetti of Italy.

Valeo put on FF9.90, or 3.5 per cent, at FF221.40, after a session high of FF225, while Cerus added FF7.50 at FF101.

BNP fell on speculation that it might sell its stake in Suez at a discount: BNP moved down FF4.20 to FF202.60, while Suez lost FF3.60 to FF205.50.

Eurotunnel, up 25 centimes, or 3.8 per cent, to FF6.75, was in the ascendant as hopes rose that President Jacques Chirac, on a visit to the UK today, might ask Prime Minister John Major for an extension of the Channel tunnel operator's 65-year licence.

Lagardere moved ahead FF1.90 to FF335.50, as it was announced that it had agreed to form a missiles joint venture with British Aerospace. According to Lagardere, the new company, to be known as Matra BAe Dynamics, would be Europe's biggest missile concern.

AMSTERDAM was steady as the AEX index put on 0.76 at 555.67, off a high of 558.34. ABN AMRO made another 30 cents to F18.30 in follow-up buying, which followed last week's news that it was merging its equity capital operations with Rothschild.

There was enthusiasm in Tulip and Volmac, after PTT

FT-SE Actuaries Share Indices

May 13	Open	10.30	11.00	12.00	13.00	14.00	15.00	Close
FT-SE Actuaries 100	1688.05	1689.26	1695.22	1687.74	1687.57	1687.57	1687.54	1688.58
FT-SE Actuaries 200	1718.53	1719.12	1719.36	1716.60	1717.18	1715.58	1714.56	1714.51

said that it would intensify computerisation of telephone billing. Tulp climbed FI 1.10 to FI 18.10 and Volmac FI 1.40 to FI 32.10.

investors said to be switching to Zurich.

MILAN was higher in response to a firmer trend in domestic bonds and the lira.

Data until 1000 (GMT+0200). High/Low: 100 = 1688.45, 200 = 1720.70. Last day: 100 = 1688.45, 200 = 1712.82. T. P. 1000.

said that it would intensify computerisation of telephone billing: Tulip climbed F1.10 to F18.10 and Volmac F1.40 to F132.10.

ZURICH was flat as the market's recent declines and this week's economic data from the US weighed on prices, although last week's selling pressure subsided. The SMI index edged up 0.9 to 3,557.8.

Roche certificates rose SF25 to SF9.465 as CS Research, which forecast further increases in profits this year and in 1997, recommended overweighting the shares.

Zurich Insurance was SFRs higher at SFR333 in response to Friday's better than expected 1995 results and on buy recommendations. Winterthur fell SFR13 to SFR752, with some

insurers were mostly lower after last week's disappointing results from SAI, down L582 at L15,963. Generali fell L332 to L37,946 and RAS was marked down L119 to L17,094.

OSLO was helped by a stronger oil price, as well as a good performance from Helsefund Nycomed, the pharmaceuticals company, which put on NKR7 at NKR184. The All-share index edged up 0.3 per cent to 821.06 in turnover of NKR1bn.

Helsefund was popular on reports that the annual shareholders' meeting might approve a proposal for the group to be split into two companies, one concentrating on energy and the other on pharmaceuticals, both of which could be vulnerable to takeover.

Kvaerner retreated NKR10 to NKR247 owing to a strike by shipyard workers, the first in 70 years. The strike was announced after members of the United Federation of Trade Unions rejected a wage agreement with employers.

STOCKHOLM edged lower on a day in which trade was dominated by a SKR1.5 advance to SKR303 in Astra, the drugs

group. The Allshare general index slipped 5.0 to 1,953.3 but turnover was inflated by technical trade aimed at reducing tax on dividends.

The forestry sector was broadly lower, the sub-index falling 1.1 per cent. MoDo lost SKR4 to SKR355 but AssiDom edged up SKR0.50 to SKR164 in heavy trade.

Skandia, the insurer, rose SKR0.50 to SKR184 after it announced a doubling in first-quarter profits.

HELSINKI ended higher, helped by firm bonds and stronger US stocks in early dealings, and the Hex index picked up 6.24 to 1,946.97.

Nokia came off lows to close FM2.60 down at FM267.90, matching a higher opening on Wall Street. Raitio reached another all-time peak of FM224.00, up FM14.00, in further response to reports about its Benecol margarine. Finlines hit an 11-month high at FM35.50, up FM3.50, after becoming Swedish Bilspedition's largest owner with a 23.7 per cent stake last week.

Written and edited by Michael Morgan and John Pitt

ASIA PACIFIC

Nikkei loses ground as Hong Kong rallies 1.4%

Tokyo

Lingering worries over interest rates depressed shares and the Nikkei 225 average finished 1.2 per cent down, writes Emiko Terazono in Tokyo.

The Nikkei lost 248.30 at 21,171.82 after moving between 21,170.72 and 21,504.02. While shares rose in the morning thanks to the dollar's gain against the yen, most investors remained inactive, prompting arbitrage unwinding in the face of a decline in futures prices.

The Topix index of all first section stocks fell 14.82 to 1,643.10 and the Nikkei 300 shed 2.78 to 3,013.13. Losses led gains by 821 to 248, with 189 issues unchanged.

Volume was 380m shares, against 464m. Although foreign investors picked up some shares which were hit by arbitrage unwinding, many stayed away. Traders said there seemed to be a recent lull in activity by foreign investors, who have been leading buyers from the start of the year.

In London the ISE/Nikkei 50 index put on 3.08 at 1,488.19.

High-technology issues were lower in spite of the yen's fall. Toshiba dipped Y8 to Y777 and Old Electric Y17 to Y775.

Speculative stocks fared well. Copal, a camera shutter maker, rose Y64 to Y904 and Kanematsu-NKK surged Y260 to Y4,740. Profit-taking hit Nagasaki, off Y23 to Y767.

Large-capital steel and shipbuilders fell on active trading. Nippon Steel, the day's most active issue, lost Y6 to Y387. Mitsubishi Heavy Industries eased Y6 to Y902.

Financials declined on interest rate concerns. Industrial Bank of Japan shed Y20 to Y2,700 and Sakura Bank Y40 to Y1,110. Brokers were lower.

In Osaka, the OSE average slipped 143.93 to 22,980.60 in volume of 25.6m shares.

Roundup

Lower than expected US producer prices, announced last Friday, spurred HONG KONG 1.4 per cent higher although trade remained very thin. The Hang Seng index gained 148.27 at 10,746 in turnover down to another year low of HK\$2.9bn.

Analysts said the Sino-US copyright protection talks which began yesterday aimed at settling mutual trade sanctions added to market lethargy, but the consensus was that another eleventh hour compromise was likely.

The property sector rallied as strong housing sales over the weekend boosted sentiment. Sun Hung Kai Properties, which sold out all of the 640 units it offered at a Shatin development, climbed HK\$1 to HK\$73.50. Cheung Kong rose HK\$1.35 to HK\$52.75, as did Henderson Land to HK\$53.25.

SINGAPORE was boosted by late demand for blue chips and the Straits Times Industrial Index moved forward 15.22 to 2,585.46.

Among actively traded shares, Singapore Telecom picked up 6 cents to S\$3.64, on demand prompted by the stock being included in the MSCI index soon.

ST Automotive foreign led the losers with a 26-cent drop to S\$3.52 after recent gains.

SYDNEY saw a decline in mining stocks offset by gains across other sectors. The All Ordinaries index ended off 0.5 at 2,255.9. Turnover was 308m shares valued at A\$643.5m.

One of the main features was a revised takeover offer by Mobil, of the US, for Ampolex which left the latter up 29 cents at A\$4.64. The new offer

of A\$4.64 for each ordinary share and A\$4.66 for each preference share values the company at A\$1.78bn, up from A\$1.64bn, and has the backing of the Ampolex board.

TAIPEI was beset by profit-taking after financial issues had surged in early trading. The early rally had been driven by reports that a government fund would begin buying shares to boost the market ahead of the May 30 inauguration of the president.

The weighted index eased 15.58 to 6,127.19, after profit-takers began selling financial and construction issues when government buying failed to materialise.

KUALA LUMPUR gave up an early lead to close mostly lower as investors locked in profits on continuing concerns about the market's near term direction. However, demand for some index blue chips enabled the composite index to

close 3.90 up at 1,183.96.

Proton jumped M\$1.50 to M\$13.70 in late trade on program buying amid rumours of strong results helped by a weaker yen.

Land & General fell 35 cents to M\$6.20 on news it is selling its 19.99 per cent stake in the brokerage Rashid Hussain, which had been contributing 25 to 30 per cent of Land & General's annual pre-tax earnings.

SEOUL was higher on demand for construction and financial shares, and the composite index, which ran into profit-taking pressure late in the session, ended 8.09 ahead at 978.73.

The construction sub-index rose 3.5 per cent, boosted by the prospects of rising demand for infrastructure construction. Poong Lim Industrial went limit up, gaining Won800 to Won1,900, and Daesim Industrial also rose to its daily

limit of Won17,100, up Won900.

Several financial shares also went limit up on rumours that South Korea's major business groups were seeking to take over their managements. The financial sub-index moved forward 1.7 per cent.

BOMBAY finished higher as Tisco and Telco recorded sharp gains in a no-delivery period ahead of their book closure. But analysts noted that most foreign funds had stayed on the sidelines as political parties scrambled to garner the majority required to form the next government. The BSE-30 index firmed 56.85 to 3,751.24.

Shares of ITC Hotels shot up Rs18 to Rs172 on improved results for 1995-96.

MANILA saw few gains as most investors became cautious following last week's steady rise. The composite index put on 5.82 at 3,117.05. PNB strengthened 12.50 pesos to 422.50 pesos as foreign investors took an interest.

BANGKOK moved modestly higher, with most investors awaiting first-quarter results due during the course of the week. The SET index rose 1.88 to 1,324.50 in volume of 94.8m shares worth B\$6.5bn.

In addition, the prospect of a cabinet reshuffle made local investors cautious.

The banking sector rose 0.5 per cent. Bangkok Bank, the country's largest commercial bank, added B\$4 at B\$22.00 in volume of 1.5m shares.

JAKARTA saw selective buying by foreign funds and profit-taking by local investors in second-line stocks. The JSE index moved up 2.31 to 621.89. Turnover was Rp199bn.

COLOMBO slipped at the close as foreign buying eased and late local retail selling trimmed early gains in the financial sector. The Allshare index lost 1.8 to 663.4 as turnover dropped to SLRs10.2m.

MARKETS IN PERSPECTIVE

	% change in local currency ↑			% change floating ↑	% change in US \$
	1 Week	4 Weeks	1 Year	Start of 1988	Start of 1988
Austria	-0.14	+3.04	+6.40	+13.25	+8.39
Belgium	-0.80	+0.05	+13.76	+4.90	+0.38
Denmark	-0.34	+1.55	+14.12	+8.66	+4.31
Finland	-2.01	+6.78	+1.50	+8.71	+1.89
France	-0.21	+2.01	+8.35	+15.24	+1.24
Germany	-0.18	+2.88	+18.73	+7.40	+2.80
Ireland	-0.98	+4.76	+27.71	+11.55	+11.35
Italy	-1.11	+7.97	-0.55	+10.02	+14.09
Netherlands	+1.09	+2.23	+26.49	+13.88	+9.25
Norway	-1.53	+1.55	+13.41	+10.18	+8.34
Spain	-0.13	+3.44	+22.44	+11.78	+6.51
Sweden	+0.42	+0.14	+26.49	+10.45	+13.08
Switzerland	-1.22	-2.34	+33.36	+7.57	+1.47
UK	-0.07	-0.11	+14.51	+2.79	+2.79
EUROPE	-0.11	+0.86	+18.80	+7.78	+5.44
Australia	-1.58	+0.58	+9.11	+1.81	+11.92
Hong Kong	-1.29	-3.38	+19.72	+7.58	+6.68
Japan	-1.80	-1.29	+22.89	+3.69	+3.47
Malaysia	-2.24	+0.90	+19.24	+14.64	+18.31
New Zealand	-1.18	-0.88	-3.82	-2.80	+4.97
Singapore	-1.38	-3.20	+14.48	+4.67	+7.43
Canada	+1.44	+3.32	+20.72	+10.38	+12.32
USA	+1.48	+2.82	+23.90	+5.86	+7.94
Mexico	+0.95	+0.06	+51.88	+18.66	+23.05
South Africa	-2.02	+2.70	+21.87	+10.96	+5.50
WORLD AVERAGE	+0.08	+1.02	+20.90	+6.07	+6.42

1. Based on May 10 1996. 2. Copyright, FT-SE International Limited, Goldman, Sachs & Co. and Standard & Poor's. All rights reserved.

S African industrials recover

Johannesburg was mixed, with industrials supported by a turn in sentiment but off their best intra-day levels and golds easier on a softer bullion price. The overall index ended 48.8 up at 6,794.2, industrials advanced 92.3 to 7,913.4 and golds declined 14.5 to 1,966.3.

De Beers added R3 at R144.25, SA Breweries rose R2.75 to R118.50, Anglo was R5.75 ahead at R264 and Richemont put on R2 at R62.

Iscor dipped 24 cents to R3.49 on news that results for the second half would be substantially lower than expected.

FT/S&P ACTUARIES WORLD INDICES

The FT/S&P Actuaries World Indices are owned by FT-SE International Limited, Goldman, Sachs & Co. and Standard & Poor's. The indices are compiled by FT-SE International and Goldman Sachs in conjunction with the Faculty of Actuaries and the Institute of Actuaries, NatWest Securities Ltd. was a co-founder of the indices.

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Ruling after row over coal sales



EUROPEAN COURT

The European Court of Justice has ruled that recommendations issued by the European Commission under the European Coal and Steel Community Treaty may be relied on by individuals before national courts where their provisions are unconditional and sufficiently precise.

This ruling followed complaints to the Commission by independent coal producers in the UK concerning the purchase of coal by the Central Electricity Generating Board and its successors, National Power and PowerGen.

Most of the coal required for electricity generation was purchased from British Coal. However, some was purchased from independent producers. These additional supplies were bought on different terms, and the independent producers alleged this was contrary to European law because it constituted an abuse of a dominant position.

The Commission dismissed the complaints relating to the period after the generating board had ceased to purchase coal, but made no finding with regard to the earlier period.

The plaintiffs brought an action in the English High Court for damages against National Power and PowerGen for the period 1985-90. The claim alleged the two electricity generators had discriminated against them in purchasing coal on terms less favourable than those offered to British Coal.

The High Court stayed the proceedings and referred certain questions to Luxembourg. The European Court had to decide first which treaty was relevant to the case - the European Coal and Steel Community Treaty or the Treaty of Rome.

It reiterated that the extraction of unworked coal fell within the scope of the former and found that the plaintiffs were engaged in coal production within the territory of a member state within the meaning of the same treaty. By contrast, the generators were not engaged in such production and did not fall within its relevant provisions.

Insofar as the relevant provisions applicable to the purchasing practices were concerned, although the European Court's

jurisprudence demonstrated that Rome treaty rules could be applicable to products covered by the coal and steel community treaty, in the present case the alleged discrimination fell wholly within the scope of the latter.

In particular, the European Court noted the Commission was empowered under that treaty to make appropriate recommendations to member states when it found that discrimination was systematically practised by purchasers.

It ruled that the treaty covered situations in which the discrimination alleged was to the detriment of coal producers covered by the treaty even where the purchasers were not so covered.

It further ruled that these provisions provided victims of such discrimination with effective legal protection. The Commission could not only prohibit any unlawful conduct found to exist, but also draw all the consequences as regards the effect such discrimination could have had as between producers and purchasers, even before the Commission had taken action. It was thus clear that the coal and steel community treaty's provisions constituted the relevant legal framework.

The European Court then turned to the question of whether the Commission recommendations were of direct effect and could be relied on in national courts.

The relevant provisions of the treaty did not permit individuals to contend before national courts that any alleged discriminatory behaviour was contrary to the treaty rules before the Commission had made a recommendation on the behaviour.

However, once a recommendation had been made, if its terms were unconditional and sufficiently precise, then those terms could be relied on directly by individuals before the national courts. Finally, it said that Commission decisions relating to complaints were binding on the national courts, but that the courts could still request the European Court to rule on the validity or interpretation of such decisions.

C-18/94: Hopkins v National Power and PowerGen, ECJ 6CH, May 2 1996.

BRICK COURT CHAMBERS, BRUSSELS

Drive goes on to recover VAT

The latest judgment on company cars has not settled the issue, write Robert Rice and Jim Kelly



In spite of the High Court's endorsement last week of the UK government's position on value added tax on company cars, the battle by UK businesses to recover billions of pounds in VAT looks set to continue.

The companies claim the government has collected the tax illegally on the purchase of such vehicles since 1973.

Now the court's dismissal of an application by Allied Domecq, the food group, Royco Leasing, the car-leasing arm of the Royal Bank of Scotland, and TC Harrison Group, the car dealer, for their cases to be referred to the European Court for clarification of the law, has left legal advisers and accountants "astounded".

Their reaction stemmed not so much from the fact they had lost but from the nature of the court's judgment and its assertion that it could decide with "complete confidence" a point of European law that is at present before the European Court of Justice in infringement proceedings brought against France by the European Commission.

"If the court is right, it must mean the proceedings against the French government will fail and the arguments raised by the commission are doomed to failure," said Mr Andrew Thornhill QC, counsel for Royco and Allied Domecq.

The source of the companies' complaint is a Customs "blocking order" that prevents them recovering VAT paid on cars bought for business use since 1973. They claim the ban is incompatible with the Second and Sixth European VAT directives, the principal measures for harmonisation of VAT in the European Union.

Under those directives, businesses that make goods and provide services subject to VAT are allowed to deduct the VAT or "input tax" payable on goods and services that they buy in. If they were not allowed to make such a deduction, then the tax would be built into the cost of the businesses' own goods or services and would be passed on to the consumer, who in effect would be paying VAT at least twice the normal rate.

That double taxation is contrary to the principles of the two European directives, according to Mr Dominic Taylor, a VAT expert at Ashurst Morris Crisp, City solicitors acting for Royco and Allied Domecq.

However, recognising harmonisation of the VAT regime within the EU would take time to achieve, the directives left room for member states to exclude "certain goods and services" from the deduction system. This applied particularly to those capable of being exclusively or partially used for the private needs of the taxpayer or its staff.

Because of the difficulties of

determining with accuracy the proportion of private use of business cars to be taxed, the UK government decided in 1973, when VAT was introduced, to use that exemption to impose an order blocking recovery of tax as the simplest way of taxing private motoring.

For years UK companies assumed the blocking orders were valid and could not be overturned. But in 1992 the car-leasing companies, already at a disadvantage to continental European rivals which are allowed to deduct the input tax on cars bought for leasing, made a complaint to Brussels. Their case was that, as there was no possibility of cars bought for leasing purposes being used by a leasing company for private use, they should be allowed to recover the tax. Cars for leasing were also "essential tools of the trade".

The leasing companies were joined by other businesses that felt they should be entitled to recover a proportion of the VAT on company cars relating purely to business use. Motor traders also argued they should be able to recover tax on demonstration models.

More than 5,000 British busi-

nesses have now lodged claims with the VAT tribunal. But last July the three test cases brought by Royco, Allied Domecq and TC Harrison were turned down by the tribunal. It rejected their claims for repayment in spite of a change in the rules in last year's Finance Act to allow car-leasing companies to recover tax on vehicles bought for leasing from August 1995 - a move suggesting that in respect of car-leasing companies, at least, the government accepted it was unlawful to block recovery of input tax.

The three companies appealed to the High Court, offering a number of arguments as to why the VAT tribunal had been wrong to refuse to refer the issue to the European Court. First, they maintained the question of the compatibility of the UK's orders with the Second and Sixth VAT directives was not clear.

Second, they argued the case should go to Europe because of the importance of the issue. There were large sums at stake - Customs and Excise has estimated up to £25bn in back tax and interest - and a large number of appeals by other companies rest on the outcome.

Third, they argued the case

should be referred because the European Court has yet to give a definitive judgment on the scope of exceptions to the general principle in the directives that companies may deduct VAT on goods and services bought in.

And fourth, they said the case should be referred because the European Commission has taken an interest in the issue and has issued an opinion that the Sixth directive does not authorise member states to make an exception to the right to deduct VAT in respect of goods that are "tools of the trade".

The commission has taken infringement proceedings against France in the VAT tribunal for blocking the recovery of VAT on a car bought and used by a driving instructor.

The High Court rejected all these arguments. Mr Justice Turner gave the broadest possible interpretation to the terms of the two directives dealing with exclusions to the general principle of deduction.

He said: "The terms of the exclusion are not concerned with the use to which the taxable person intends to put the goods but instead is directed to goods which, by their nature, are capable of being used

for the non-business needs of the taxable person. The permitted exemption is concerned with types of goods rather than their actual or prospective use in the hands of the taxpayer."

The blocking orders are not, and never were, invalid, he said.

The companies have found that interpretation very hard to accept. Speaking after the decision last week, Mr Taylor said: "Anything has the possibility of private use. They could say they won't allow any deduction on any goods and services and that can't have been the intended effect of the directive."

Mr Peter Sheppard, Royal Bank of Scotland's VAT adviser, was equally surprised by the judgment. The commission was taking France to the European Court on the basis that it was not allowed to block the recovery of VAT on tools of the trade. If that were true in respect of a driving instructor's car, how much more it must be true of vehicles bought for leasing, he said. "Cars are our tools of the trade. Without them we wouldn't have a business."

The decision came as a relief to the government. Mr David Heathcoat-Amory, Treasury minister, said: "I am very pleased the court has shared the view of successive governments that it is legitimate to restrict recovery of tax as a simplified way of taxing private use."

Accountants and lawyers pointed out, however, that the actual amount at stake would be considerably less than the £25bn estimated by Customs. The European Court could limit the recoverability of VAT either to the three companies that brought the action or to the 5,000 that have already lodged claims. It could also limit the effect of a judgment in favour of the companies temporarily, allowing them to recover tax only back to 1992, the date when they first lodged an appeal with the VAT tribunal.

For these reasons, accountants are advising other businesses which think they might have a claim to lodge protective appeals with the VAT tribunal as soon as possible.

"It thus goes the taxpayers' way, there will be huge amounts involved and there might be some attempt to limit the numbers who can claim," says Ms Penny Hamilton, VAT partner at Coopers & Lybrand.

Much may depend therefore on the final number of claims lodged with the tribunal. Estimates vary, but Mr Alan Buckett, VAT partner with Blinder Hamlyn and national chairman of the VAT practitioners' group, says the total could be as high as 10,000. With the companies almost certain to fight on with an appeal to the Court of Appeal, the government is not off the hook yet.

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TECHNOLOGY

A computer spots an international terrorist trying to enter the US and alerts officials: smart televisions know exactly what viewers watch through a camera mounted on top of the set; a criminal attempting to use a stolen credit card is caught because the machine does not recognise his face.

All of these scenarios - images both comforting and alarming - may soon become reality. Face-recognition technology, long in development, is finally approaching practical application and may soon achieve widespread use.

One of the best systems has been put together at the Massachusetts Institute of Technology's Media Laboratory, where Alex Pentland has constructed an artificial brain blessed with what is referred to as "visual intelligence".

This summer, the state of Massachusetts will roll out a program based on the MIT system - dubbed Photobook - to identify people who use multiple identifications to commit fraud.

British Telecommunications, which provides partial funding for the Media Lab work, is developing a security system based on the technology. The US Army is interested in using Photobook for a secure-entry system.

Kodak and Sensormatic, a large US security firm, have also expressed interest. Pentland has even been called to the White House to explain how his technology could combat terrorism.

In the future, the program could help find missing children and provide extra security for ATM and credit card users. Tiny computer cameras that can be mounted on top of the screen for just \$100 (\$50) make it possible to use Photobook on the Internet to verify identification for electronic purchases and track down online pornographers.

Although the Big Brother aspect may be troubling to



Facial lines: the computer recognises faces in a completely different way from people, with advantages and disadvantages over the human brain

'I know that face'

Victoria Griffith on a computer system with 'visual intelligence'

some, to others it will provide comforting security.

Some of Pentland's suggestions for Photobook border on the bizarre. He dreams of a front door camera that announces the identity of the person outside. "Wouldn't it be great if the camera could tell us it's an insurance salesman outside," he asks.

Pentland has also built the prototype of a pair of spectacles with a tiny camera attached, to whisper the names of people he has already met.

"That's great for me because I have a bad memory for names," he explains. The way in which the human brain recognises faces is largely a mystery. In some unknown way, people match hair colour, eye shape, nose size and other information to stored images of friends, family and acquaintances.

Because the mechanism is not well understood, Pentland says, he had no hope of replicating it. "Before I did my research, people had tried to teach computers to recognise

faces based on human-like perceptions, such as bushy eyebrows," he says. "But they never had much luck."

Pentland instead took a highly analytical approach to the problem. The computer, he explains, recognises faces not by individual features, but in a holistic manner. To start with, Photobook breaks the image into pixels that make up an image on the screen. The pixels represent a simplified version of the face, resembling a map of various shades, colours and shapes. Photobook's typical face, for instance, is made up of 18,000 pixels.

The computer normalises photographs of people to compensate for differences in lighting, distance and other factors. It then selects the facial features that can most easily dis-

tinguish one face from another. Researchers call these features "eigenfaces". Eigen means "real" or "true" in German.

The information is stored; when an image of the person is fed through the program, the computer compares the eigenfaces to come up with a match. Because the information is dig-

itally compressed to take up less space in the computer's memory, the match can take place within a few seconds. Pentland says he has achieved nearly 100 per cent accuracy in tests with databases containing 3,000 faces, although critics say those tests were performed under ideal circumstances, such as uniform light.

Because the computer recognises faces in a way completely different from people, it has advantages and disadvantages over the human brain. Photobook is less good than humans in recognising those closest to us. Close friends and relatives, for instance, can train their eyes to distinguish subtle differences in the features of identical twins, for instance. "That's way beyond the capability of the computer," says Pentland. "To the program, identical twins are the same person."

Yet computers have the benefit of being able to keep a huge number of images in their data banks. It is beyond the capability of most humans, for instance, to match names to a databank of thousands of different faces.

The computer is also better at seeing through disguises. "You would probably recognise me tomorrow if you saw me walking down the street as I am now," says Pentland, a bearded redhead. "But if I shave my beard, dye my hair black and put on sunglasses, you probably wouldn't."

Because the computer registers unchangeable features

such as eye sockets, it can usually override a disguise. "Or if it couldn't identify the face definitely, it would at least suggest a possible match," says Pentland.

He is now seeking to build a program to recognise faces in even greater detail, creating "eigenfeature" maps in addition to the "eigenfaces". The enhanced capability could prevent terrorists, for instance, from escaping recognition by undergoing plastic surgery.

"The advantage of using the computer for this type of purpose is that there are not that many known terrorists worldwide," says Pentland. "It's the same with drug smugglers - there are usually just a few hundred people causing all the trouble, so it's easier to add detail into that sort of a program."

Sensormatic, one of the companies interested in Pentland's work, says it is looking to develop a product soon using the eigenface technology. "We'd use it for access control systems, which would identify people for admission to high-security buildings," says Hap Patterson, Sensormatic's R&D director.

With the Photobook project up and running, Pentland is looking at other visual intelligence challenges. "I'm trying to get the computer to recognise not just a face, but what mood a person is in or the gestures he or she is making."

The new technology would have different applications from Photobook. Pentland is talking to car makers Nissan, Volvo and Mercedes-Benz about the possibility of making a car that recognises when the driver is falling asleep, for instance. The idea is that the car would set off an alarm or create some other stimulus to wake the driver up.

Pentland has also created a computer that recognises simple hand motions. He is using this technology in a new Media Lab project called the "Smart Room". It can interpret the wave of a hand as a signal to change the television channel or lower the volume, for instance.

Pentland admits that some aspects of his research can be frightening. In fact, he got started on the project when Arbitron Company, the main competitor of television rating group Nielsen, asked Pentland's boss Nicholas Negroponte, to develop a way to identify exactly who was watching certain television shows.

"Some people saw this as an Orwellian nightmare, although the reason it hasn't yet been used has more to do with price," he explains. While some may feel uncomfortable with the idea, increasing anonymity has introduced an aspect of danger to the world.

In the past, human beings spent their days interacting with people long familiar to them. Today, parents hand their children over to caretakers they met a short time before, open their front doors to delivery people they do not know, and wonder if the person sitting next to them on the plane could be a terrorist.

Keeping a watchful eye on security

In the film *Never Say Never Again*, a camera lens zooms up to James Bond's eye to verify his identity by his iris pattern.

ATM users in Japan may soon feel like agent 007. Sensar, a New Jersey-based subsidiary of the David Sarnoff Research Centre, has clinched a \$26m (£17m) deal with Oki Electric of Tokyo for technology to verify users' identities by examining their irises.

Oki, one of the largest ATM manufacturers in the world, hopes to incorporate the system in its machines by early next year.

Sensar says that it is negotiating deals with other ATM makers as well. The new technology, developed in the UK by John Daugman, a scientist at Cambridge University, uses iris patterns to recognise identity. "Iris patterns are even more unique than fingerprints," says Daugman.

"I don't even use colour, because there are so many other distinguishing marks." Daugman's method is similar to that used by Alex Pentland at the Massachusetts Institute of Technology for face recognition.

The camera uses algorithms to make simplified maps of the iris, then stores the image digitally in the computer's database. When the computer sees the iris again, it scans its memory to make a match. One advantage of iris over face recognition is that the markings of the eye are more variable than facial features. Even identical twins have distinguishable irises.

Another benefit is that the camera knows when it is seeing a live eye because the pupil oscillates. "You can't just hold up a photograph of someone's iris," said Daugman. "The computer will know it's a fake."

However, the technology has drawbacks. For one thing, users have to take off their sunglasses for the system to work.

The system also suffers from an annoying characteristic in that, because the iris is a small organ, the camera has to come very close to the eye to provide positive identification.

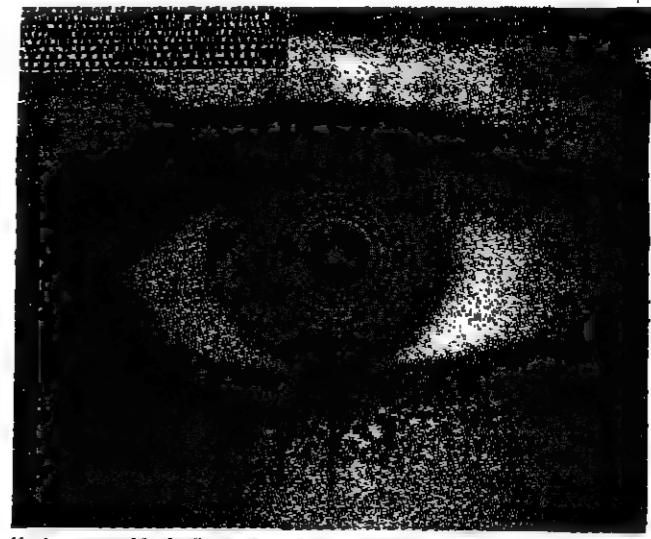
"You can get people in the military, maybe, to put up with a camera lens right in front of their eye, but ATM users won't stand for that," says John Siedlarz, chief executive of Irican, the company that markets and licenses Daugman's technology. Oki will solve that problem by making ATM customers insert a card first. Because the card tells the computer who the user is, the camera merely needs to confirm that fact.

That is a far easier task than finding a database match using the image of the iris alone. For that reason, the system will work even if the user is up to 3ft away. Daugman is now tackling the next step, which is to use the technology for positive identification even when the subject is a reasonable distance from the camera. In the future, he hopes, ATM users will not even need a card to access their account.

Even if ATM manufacturers adopt the technology, it may take some time for it to become widespread. "We don't see banks going out and refitting all their ATM machines, but we do see them replacing old machines with ones that have iris recognition devices," says Siedlarz. Irican is also looking to sell its recognition programs for secure entrance to buildings and military bases, where real secret agents may soon be identified by their iris patterns.

Real life does sometimes imitate fiction.

Victoria Griffith

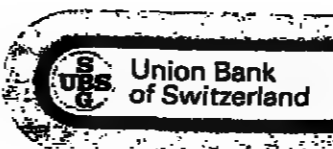


Having a good look: illustration of a computer iris code

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The late Federico Fellini would have loved this year's festival. Not only is it by exact count "Cannes 48½", a movie spree founded in 1946 and half of one to the unreeds of 1968. But there was also a defiant show of *la dolce vita* on opening night this year. Spinning umbrellas even under pouring skies, the glittering folk ascended the Palais steps to wave to *la taut Cannes* in ever more rain-drenched dinner jackets and Dior dresses.

Then they sat through a double bill of movies called *Runaway Brain* and *Idiot*. No irony was intended by the titles, though both conditions promise to be as rare as usual in Cannes, where the cerebral lies down annually with the surreal.

Since the first film was a Mickey Mouse cartoon and the second an austere French costume feature, perhaps another statement was being made at Cannes '96. Hollywood's opening night role as second

The cerebral meets the the surreal

Nigel Andrews reports from Cannes film festival, 48½ this year

ond fiddle to France will continue throughout the festival, where the host nation has five features in competition to America's modest three, an unprecedented ascendance. Half a decade after Gatt the French may still be trying to show who is boss when it comes to showing movies in Europe.

Paris/Tinseltown standoffs seemed academic, though, on day two when the first Golden Palm favourite emerged from Britain. In *Secrets and Lies* director Mike Leigh returns to the high comedy of dysfunctionality he perfected in *High Hopes* and *Life Is Sweet* and put on hold in the bleak, more portentous *Naked*.

A hilariously rueful Brenda Blethyn - place a hundred francs now if you are betting on the Best Actress prize - plays an unmarried

mother confronted with the daughter, now grown up, whom she had given away for adoption at birth. Blethyn, white, discovers that said daughter is black. Thereby hangs the 2½-hour tragicomedy of errors, which soon involves all Blethyn's relatives from her grumpy road-sweeper (second) daughter to her portrait photographer brother, played in finest wounded-hedgehog form by Timothy Spall.

Some critics have cried "Too long!" of a movie that insists on playing out its scenes of comic revelation in real time. But in Leigh's world, people are always encouraged to display their full repertoire of tics when they take on their new crosses. A long uncut take of mother and daughter at a restaurant table, picking at the past as nervously as they pick at their

plates, is wonderful for what happens in the silences as much as the speeches.

At the far extreme from Leigh's realism is Peter Greenaway's style as displayed, dazzlingly, in *The Pillow Book*. Here the screen is overrun by surrealism. There are scrawled eastern ideograms, frames within frames, bursts of colour alternating with black and white. All this to enact the story of a woman author (Vivian Wu) whose works are written on her own, then later on her lovers', bare skin extending a lovingly remembered childhood ritual in which her father used to inscribe birthday greetings on her face. The setting and cast are Oriental save for Scottish actor Ewan

McGregor, graduating from train-spotting to tattooing as his nude body becomes the precious manuscript sent between the heroine and her (homosexual) publisher.

Rhythmic "sex and text" in this truth-based portrait of the author of a 10th-century Japanese "pillow book", recording the lady's intimate thoughts on everything from court life to love adventures, Greenaway runs the erotic and calligraphic together in a fable that accelerates into passion, jealousy and vengeance. This film-maker often accused of coldness can clearly heat up Jacobean passions and obsessions when he sets his heart and mind to it.

Shown out of competition, *The Pillow Book* knocked the life out of some underwrought movies vying for Golden Palm. Robert Altman's

Kansas City is a torpid mixture of thriller and period recreation, with Jennifer Jason Leigh, Miranda Richardson and Harry Belafonte trying to make sense of a story about jazz, kidnapping and political corruption. Hou Hsiao-Hsien's *Goodbye South, Goodbye* is a mad-deniably pitiless drift through Taiwanese manners and morals from the maker of *The Puppetmaster*. And Stephen Frears' *The Van* is a Roddy Doyle comedy so old-fashioned in its rumbustiousness that we are surprised he did not enlist the "Carry On" team instead of the bravely struggling duo of Colin Meaney and Donald O'Kelly.

The Directors Fortnight has also alternated between the lithe and the all-over-the-place. Cannes' showcase for radical auteurs opened with John Sayles' *Lone*

Star, a big liberal soap opera set in a Texas town so lathered with past guilts that we could be watching a Stanley Kramer melodrama. Kris Kristofferson is the bad sheriff who dies in mysterious circumstances (cueing the whodunnit plot). Chris Cooper of *Twain Peaks* is the good sheriff trying to clean up the town's legacy of graft and racism.

Much better were Steve Buscemi's *Trees Lounge*, a comedy of love and mishap made by the hangdog-boyish actor we know from *Rosario* and *Living With Oblivion*, and Michael Winterbottom's *Jude*, which breathes life and winky fire into Thomas Hardy's novel. Kate Winslet and Christopher Eccleston stride the Wessex landscapes as the cinema of Eng. Lit. turns from Jane Austen, fast running out of books, to another motherlode of period costumes, sturdy plots and star-crossed lovers.

Still to come at Cannes are new Palm contenders from Bertolucci, Kaurismäki, Chen Kaige and the Coen and Taviani siblings. Watch this space.

An intimate view of a monumental talent

William Packer admires Henry Moore's creative 'work in progress'

Henry Moore, as some would argue, is England's greatest artist of the 20th century. Yet even now, it would seem, he is acknowledged abroad, and especially in France, rather more by critical reflex and assumption than by actual knowledge. In a sense he has been the victim of his own success. The huge public shows around the world, from the Belvedere at Florence in the 1970s to the Bagatelle in Paris in the '90s, brought with them enormous prestige. But locally and immediately impressive as they were, their curious effect was to make us begin to take the work itself for granted. As yet another vast bronze reclining figure of Moore's last years was laid out on the grass, we would duly note the size of it, the weight and cost of it, and pass on.

It is in this respect that this new and rather small exhibition at Nantes, ten years on from Moore's death, is so important and so special. It is indoors. There are no bronzes to dominate the space by a purely material presence. And while some large works are included, there is none that is above a human scale in the immediacy and directness of its working. We are reminded of the principles that Moore himself set out as a young man and which later he seemed almost to forget - true sculpture establishes its own scale, and the smallest piece may be truly monumental; scale is a function not of literal size but of the imagination.

He was, through all those early years, a carver - breaking open, cutting and smoothing the wood or stone into the form he never expected but intuitively desired. Carving for him was never the reproduction of an image, but rather its discovery and release. But here again we come up against an apparent contradiction for this show, small as it is, is fully retrospective, and after the war we find Moore turning increasingly from carving to model-

ling in clay, from which follow the casting into bronze and the opportunity to amplify at will the tiniest maquette.

It turns out to be not quite as we thought. For whatever the projected outcome of the particular project, Moore continued instinctively to work in more or less his old way, in that the immediate working scale was intimate and personal. And though he found himself working with materials that were new to him, he soon adapted them to his own old methods.

In particular, having cast the initial clay model into plaster, as the intermediate stage on the way to the final bronze, he would find himself working into it again, hacking and rasping at it, painting, staining or polishing the surface, to get it right. In fact, plaster became for him not a modelling, but a carving medium - another primary working material to be used for its own sake. He was a carver after all.

By the nature of the processes they usually serve, plasters are vulnerable and dispensable, liable always to be broken up and thrown away once the moulds are made. But Moore tacitly recognised their importance, not by showing them as works of art in their own right, but by preserving them first, and then by treasuring them. In the 1970s he gave a group of the larger plasters to the Art Gallery of Ontario, and a number are in the Tate. But most are held by the Foundation at Much Hadham, and seldom shown on account of their supposed fragility.

The fact is that they are very beautiful objects in their own right, and a revelation of Moore's working artist, most especially in his later years. The inconsistencies and contradictions fall away as we find him back in the studio with the work under his own hand, just as it always was. Whatever the production line, the inflationary scale, the huge bronzes in the background, here was the primary source, here the real creative work in progress.



Work on a very human scale: Henry Moore's 'Warrior' (1953-54)

I hesitate to call them maquettes or working studies. To see these beautiful plasters in the company of those familiar early carvings - all comparatively small and some tiny - is to know that they too are true works of art. But more than that, to see them now in the knowledge of the larger and more familiar bronzes and editions to which they led, is to know at last, obvious as it is, in which came first. As with the drawings and the carvings, it is to know which carries the artist's true touch, which the subtler and more

particular expression, the expression premiere indeed of the exhibition's own title.

The bronzes have their place, of course, wonderful and substantial monuments that they are, but not here. What we do have here, as we have not had with Henry Moore, perhaps, since he was a young man, is not the public figure seen through his public art, but the artist as artist, the artist at work. In an odd way, we have been given back Henry Moore himself. And all of this could hardly have been

shown to better advantage than it is at Nantes, in the cool white light of the central court of this handsomely restored museum.

Henry Moore - l'Expression premiere: drawings, plasters and direct carvings: Musée des Beaux Arts, Nantes, until September 2, then on to the Kunststhal, Mannheim. Organised by the Musée des Beaux Arts, the Kunststhal, the Henry Moore Foundation and the British Council: sponsored by la Banque CIO.

Opera in Monte Carlo

The Picture of Dorian Gray

The entrance to the casino is on the left. The main door to the opera-house, a fabulously ornate gem designed by Charles Garnier and seating just over 500, lies straight ahead. If a choice between them is difficult, one can linger in the foyer and watch the paparazzi hoping to catch a princess or fashion-house chief out to play for the night.

Going to the opera in Monte-Carlo is not like anywhere else. Exclusivity is at a premium, when the audience must be one of the wealthiest in the world and the theatre one of the smallest (one size down even from the old Glyndebourne). It would be easy in the circumstances for the Opéra de Monte-Carlo to settle into an easy routine of safe and stale seasons, but that would be to deny its reputation as a company energetic in encouraging new operas since its inception in 1879.

The tally of premieres is long and prestigious. Fauré's *Pentecôte* and Puccini's *La rondine*, Ravel's *L'Enfant et les sortilèges* and Massenet's *Don Quichotte* are among more than 60 operas to have had their premieres in Monte-Carlo, not to mention the first French productions of operas by Richard Strauss and revivals of Baroque works. It is an auspicious list, to which the latest addition was made last week - the premiere of Lowell Liebermann's *The Picture of Dorian Gray*.

For the gala performance on Friday the jeunesse dorée of the principality were out in force, but any worries that the opera might prove to be an uncomfortably critical portrait of their lifestyle were largely unfounded. Liebermann says he fell under the spell of Wilde's novel at the age of 13 (a teacher, being told that it was his favourite book, sniffed "I certainly hope not") and his own adaptation is the kind that respectfully follows the text to the letter, while losing most of its spirit.

As Wilde might have put it, the honest story-teller misses nothing but the truth. In setting up the contrast between Dorian Gray and his alter ego, the portrait, Wilde is able to expound on various philosophical and moral opposites - the innocent and the corrupt, the real and the illusionary, the eternal and the changeable. Liebermann, understandably feeling that this would be difficult material for an opera, reduces the philosophising to an unintelligible trio near the start and quickly passes on.

What is left is straight narrative, which the composer has adapted quite effectively for the lyric stage. It is, after all, a good short story with operatic parallels in the Faustian pact of Gounod's opera and the rake's progress of Stravinsky's. Using mostly Wilde's own words, Liebermann paces his opera judiciously and gets up a decent head of steam in the second half, where events rather than thoughts start to drive the plot. But it is all so cautious. There is no sense of living on the brink. No moral outrage.

In the same way the music is content to accompany the story, rather than seeking to express its unspeakable thoughts in a language without words. Liebermann is at his best in the traditional craft of writing a sweet love duet or catching the atmospheric chill of the attic where the portrait lurks in the darkness (a mysterious celesta, as in Britten's *Turn of the Screw*, comes in handy). His style is easy-to-absorb modern romantic and the Orchestre Philharmonique de Monte-Carlo under Steuart Bedford came across well in it.

Indeed, the production as a whole did the opera proud. John Cox organised the many scene changes expertly and arranged a real coup de théâtre at the end, when the monstrous portrait magically reverts to its original beautiful self.

As the human incarnation of that vision, Jeffrey Lentz always looked the part and sometimes sounded it, though his stamina and range were severely tested. Korliss Uecker was an appealing Sibyl Vane. Gregory Reinhardt sang Basil Hallward with unwavering certitude and John Hancock delivered Lord Henry Wotton's bon mots with vocal grandeur. Somehow, though, aphorisms accompanied by surging Hollywood-style strings just do not sound the same.

Those who remember Iain Hamilton's adaptations of books and plays (*The Royal Hunt of the Sun* and *Anna Karenina*) at English National Opera in the 1970s will recognise the continuation of the formula in Liebermann's *Dorian Gray* - the well-made opera, well intended, playing it safe and sound. "Those who go beneath the surface do so at their peril", declared Wilde with foresight in the preface to his book. Quite so.

Richard Fairman

INTERNATIONAL ARTS GUIDE

AMSTERDAM

EXHIBITION
De Nieuwe Kerk
Tel: 31-20-6268168
● World Press Photo: exhibition showing the work of the American photographer and prizewinner Lucian Perkins and other selected press photos; to Jun 9

BERLIN

CONCERT
Philharmonie & Kammermusiksaal
Tel: 49-30-2614383
● Berliner Barock-Orchester; with conductor Konrad Latte and violinist Anja Weithaus perform works by Vivaldi and Handel; 8pm; May 17
EXHIBITION
Bröhan-Museum
Tel: 49-30-3214029
● Wasserzeiten. Das Motiv des Wassers in der Kunst des Jugendstils: exhibition devoted to water as a source of inspiration for the artists of the Art Nouveau movement. The display includes paintings, porcelain, and works in metal and glass; to Sep 15

OPERA
Komische Oper Tel: 49-30-202800
● La Nozze di Figaro; by Mozart. Conducted by Shao-Chia Li and performed by the Komische Oper Berlin. Soloists include Ottenhail, Koronidi, Oertel and Larsson; 7pm; May 16

BONN

DANCE
Oper der Stadt Bonn
Tel: 49-228-7281
● Ein Sommernachtstraum: a choreography by Yuri Vámos to music by Mendelssohn, performed by the Ballet Bonn; 7pm; May 16, 19

BRUSSELS

THEATRE
Koninklijke Vismase Schouwburg
Tel: 32-2-2194944
● De Keizer van het Verlies; by Jan Fabre. Directed by Jan Fabre and performed by Dirk Roelofs; 8pm; to May 16

CARDIFF

CONCERT
St. David's Hall Tel: 44-1222-878444
● The BBC National Orchestra of Wales; with conductor Mark Wigglesworth and soprano Lucy Shelton perform works by Webern, Berg and Schoenberg; 1.05pm; May 16

COLOGNE

OPERA
Opernhaus Tel: 49-221-2218240
● Die Zauberflöte; by Mozart. Conducted by Georg Fischer and

performed by the Oper Köln. Soloists include Dieter Schwelk, Rainer Trost, Martina Rüping and Irina Marin; 7.30pm; May 15

COPENHAGEN

JAZZ & BLUES
Copenhagen JazzHouse
Tel: 45-33 15 26 00
● James Moody & The Glendamm Orchestra; perform jazz music; 8.30pm; May 16

EDINBURGH

AUCTION
Phillips Edinburgh
Tel: 44-131-2252266
● Scottish Books and Burns Memorabilia: Included in this sale are the remaining books from the library of the Rt. Hon The Lord Northwick; 11am; May 15

HAMBURG

EXHIBITION
Hamburger Kunsthalle
Tel: 49-40-24862612
● Egon Schiele. Sammlung Leopold Wien: exhibition of works by Egon Schiele (1890-1918) from the Austrian Leopold Collection. The display also affords insight into the artist's work as a draftsman; to Jun 16

LEIPZIG

OPERA
Oper Leipzig Tel: 49-341-1261261
● Il Barbiere di Siviglia; by Rossini. Conducted by Krüger and performed by the Oper Leipzig and the Gewandhausorchester. Soloists include Halx, Sawale, Scholz,

Heilmann and Riemer; 8.30pm; May 15

LONDON

CONCERT
Queen Elizabeth Hall
Tel: 44-171-9604242
● The Bournemouth Sinfonietta; with conductor Roy Laughlin and young professional singers on the present National Opera Studio course perform excerpts from Puccini's *Tosca*, Bizet's *Les Pêcheurs de Perles* and Stravinsky's *The Rake's Progress*; 7pm; May 15
St. John's, Smith Square
Tel: 44-171-2221061
● Tom Krause: accompanied by pianist Graham Johnson. The baritone performs songs by Schubert, R. Strauss, Sibelius and Mussorgsky; 7.30pm; May 15
OPERA
London Coliseum
Tel: 44-171-8360111
● Ariadne; by Handel. Conducted by Ivor Bolton and performed by the English National Opera. Soloists include Ann Murray, Joan Rodgers and Christopher Robson; 7pm; May 15, 17
THEATRE
The PR Tel: 44-171-6388881
● The Painter of Dishonour; by Calderon, in a new version by Cresswell and Johnston. Directed by Laurence Boswell and performed by the Royal Shakespeare Company; 7.15pm, May 21; 7pm, May 18, 23 also 2pm; from May 15 to May 23 (not Sun)

LOS ANGELES

EXHIBITION
Norton Simon Museum of Art
Tel: 1-818-449-6840
● The New Wave: Bonnard, Toulouse-Lautrec and Vuillard and the French Color Print: exhibition of 35 color lithographs by the 19th-century avant-garde painters/printmakers Pierre Bonnard, Henri Toulouse-Lautrec and Edouard Vuillard; to Jun 21
THEATRE
Ahmanson Theater
Tel: 1-213-872-0700
● An Inspector Calls; by J.B. Priestley. Directed by Stephen Daldry and performed by The Royal National Theatre; Tue 8pm, Sun 2pm, Sat also 2pm; from May 15 to Jun 30 (not Mon)

NEW YORK

CONCERT
The Metropolitan Museum of Art
Tel: 1-212-879-5500
● Juilliard String Quartet: perform string quartets by Beethoven; 8pm; May 17

NICE

OPERA
Opéra de Nice Tel: 33-92 17 40 00
● Armide; by Gluck. Conducted by Marc Minkowski and performed by the Opéra de Nice. Soloists include Sophie Marin Degor, Mireille Delunsch, Jean Delcroix and Laurent Nacur; 8pm; May 15, 17, 19 (2.30pm), 21

PARIS

EXHIBITION
Musée Carnavalet
Tel: 33-1 42 72 21 13
● Georg Aerni - Panoramas parisiens: exhibition of a series of

panoramic views of Paris by the Swiss photographer Georg Aerni; from May 15 to Sep 29

OPERA

Théâtre de l'Opéra Comique
Tel: 33-1 42 44 45 46
● L'Elisir d'Amore; by Donizetti. Conducted by Antonello Allemandi and performed by the Opéra Comique. Soloists include Youngok Shin, Raul Gimenez and Peter Sevidge; 7.30pm; May 15, 17, 19 (4pm), 21

STOCKHOLM

OPERA
Kungliga Teatern - Royal Swedish Opera House Tel: 46-8-7914300
● Die Fledermaus; by J. Strauss. Conducted by Kjell Ingebreten and performed by the Royal Swedish Opera. Soloists include Gunnar Lundberg, Ragnar Ulfung, Hilde Lelidand and Britt Marie Aruhn; 7.30pm; May 15

ZURICH

CONCERT
Tonhalle Tel: 41-1-2083434
● Tonhalle-Orchester; with conductor David Zinman and pianist Christian Zacharias perform works by J.Ch. Bach, Mozart, Stravinsky and R. Strauss; 7.30pm; May 15

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COMMENT & ANALYSIS



Martin Wolf

The ills of manufacturing

While many explanations are suggested for the puzzling combination of growing productivity with stagnant output, there is no magic cure for the condition

UK manufacturing is lean and mean, but its output is barely to be seen. It has managed, since 1979, to combine dynamic productivity with stagnant output. Many hoped the recovery would mark a change to this disconcerting pattern. But, after a short surge in 1993 and 1994, manufacturing is back to its habitual ways. Why has the growth of manufacturing been so disappointing? Does it matter? Can anything be done about it?

The stagnation of UK manufacturing over the past two decades has been almost total. According to an article by Michael Kitson and Jonathan Michie of Cambridge University, which appears in a stimulating symposium in the January issue of *The Economic Journal* (Basil Blackwell, Oxford), the total increase in manufactured output between 1973 and 1992 was a derisory 1.3 per cent. Over the same period, manufactured output rose 69.9 per cent in Japan, 68.6 per cent in Italy, 55.2 per cent in the US, 32.1 per cent in West Germany and 16.5 per cent in France.

If output growth has been astoundingly bad, as the chart shows, productivity growth has been highly creditable. Output per person employed in UK manufacturing rose 78 per cent between the first quarter of 1979 and the end of last year. One indication of how much labour productivity has improved is given by Professor Nicholas Crafts of the London School of Economics in the same symposium: in 1979 West German output per person hour was 40 per cent above UK levels; by 1992 this advantage was down to only 17 per cent.

This combination of fast productivity growth with virtually no increase in output is quite extraordinary. It has also had two inevitable consequences - job losses and declining shares of manufacturing in gross domestic product. Between the cycles of 1964-73 and 1979-89 UK employment in manufacturing

declined by a third (2.5m), against only 10 per cent to 13 per cent in France and Germany (0.5m and 1.1m, respectively). Unskilled men were the predominant victims of these job losses. Meanwhile, the share of manufacturing in GDP collapsed from 32 per cent in 1973 to 28 per cent in 1979 and 21 per cent in 1993.

Does this striking contrast between the output and productivity performance of manufacturing actually matter? Professor Crafts argues that deindustrialisation could even become a "dangerous obsession", because it might lead to foolish interventionism and protectionism. As if on cue, Mr Kitson and Mr Michie insist that such deindustrialisation seriously damages the UK's wealth and call for "the implementation of a macroeconomic and industrial strategy directed towards achieving sustainable economic growth and the root-and-branch reform of a financial system that has been failing British industry since Victorian times".

Deindustrialisation may be important for any of four reasons:

● Because manufacturing generates large benefits for the wider economy that are not fully captured by the businesses that create them;

● Because it generates jobs for particularly important segments of the population;

● Because it earns (or saves) the bulk of the foreign exchange on which the UK depends for its prosperity; and, accordingly,

● Because it largely determines GDP and overall employment, given constraints on the country's ability to finance current account deficits by borrowing abroad.

Members of Cambridge University's Keynesian band are not the only ones who believe the failure of manufacturing to expand is worrying. Mr Walter Eltis, for example, who was adviser to Mr Michael Heseltine as trade and industry secretary notes that "few can doubt that the UK would have achieved a higher GDP and a lower natural rate of unemployment if manufacturing industry had been able to win a higher share of world markets and the UK home market".

This seems plausible, above all because nearly two-thirds of the UK's exports of goods and services are manufactures. If the economy is unable to generate growth in production of tradeable goods and services in line with demand for them, problems seem certain to arise. The question is not whether, but when and how often.

Why then has manufacturing output been stagnant, even though demand for manufactured products has been steadily growing? Mr Kitson

and Mr Michie place their bets on underinvestment. On the fact they are correct. Gross investment in UK manufacturing has been as stagnant as - though more unstable than - output. Underinvestment is not, however, an explanation. It is another piece of evidence.

There are at least four possible explanations: one, advanced by Mr Eltis, is that manufacturing has suffered from chronically inadequate profitability; the second, recently suggested by Mr Tim Congdon of Lombard Street Research, is that the supply of labour is constrained by the perverse incentives of the welfare state; the third, put forward by Mr Kitson and Mr Michie, is short-termism in the City and the stop-go policies of the government.

Finally, in his contribution to the symposium, Professor Barry Eichengreen of the University of California at Berkeley emphasises the nature of the industrial economy developed by the UK in the first half of the 19th century - which bequeathed a legacy of craft-based unions, fragmented enterprises and banks specialising in trade credit. This explanation has at least some plausibility, since the UK's relative decline has been long-standing.

Yet of these the focus on incentives must be the sensible one. There is no point in bemoaning 200 years of his-

tory, since it cannot be undone. As for the host of interventionist suggestions by Mr Kitson and Mr Michie - a national investment bank, regional investment banks, investment banks for small and medium-sized enterprises, regulation of dividends and takeovers and measures to encourage banks to take equity positions in clients - many of these look like licences to waste money. Finally, Mr Congdon's explanation looks incomplete, since output has risen far more in the generous European welfare states than in the UK.

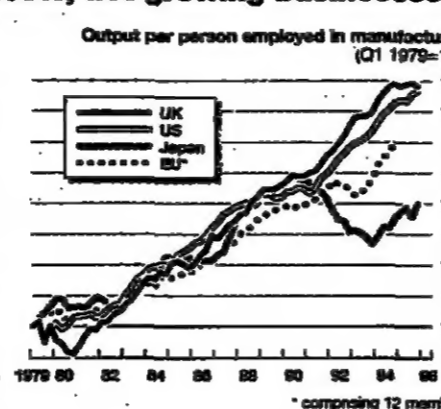
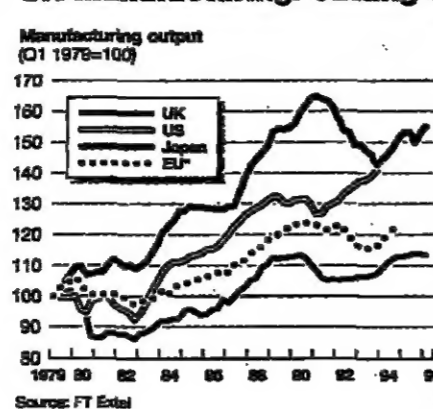
My own hypothesis is that the persistent pressure on profits created by chronic overvaluation of the real exchange rate - another name for excessive real costs of labour, given its productivity - combined with poor labour relations and unstable macroeconomic policies has produced a manufacturing sector for which a week is a very long time. Managers know only how to cut costs, not how to grow businesses.

There is no swift, magic cure for this ailment, although inward investment helps. The higher productivity and profitability of today is just a start. What is needed is a stable macroeconomic policy with a competitive real exchange rate, underpinned by conservative fiscal policy. That is just one of many reasons why talk of large tax cuts is so irresponsible just now.

Manufacturing's failure to grow is important, above all because it symptoms much that has been wrong with the UK. But the government's chief task is to create the conditions for managers to prove they are worth their pay.

* Michael Kitson and Jonathan Michie, "Manufacturing Capacity, Investment, and Employment", in Michie and John Grieve Smith (eds), *Creating Industrial Capacity: Towards Full Employment* (Oxford and New York: Oxford University Press, 1996).

UK manufacturing: cutting costs, not growing businesses



Pfizer forum

Parallel Trade and Comparative Pricing of Medicines: Poor choice for patients?

DR PATRICIA H. DANZON

Government strategies to limit drug reimbursement expenditures by "importing" savings from countries with lower prices are bad policy and harmful to innovation, according to a prominent health economist.

Drug prices have traditionally differed substantially across countries, reflecting differences in regulation, insurance coverage, medical practice, exchange rates, and other factors. Meaningful comparison of drug prices in different countries is technically problematic, because of vast differences in the range of drugs, forms, strengths and packages available in different countries.

Nevertheless, in recent years, governments in countries with relatively high prices have been increasingly attempting to reduce their own drug expenditures by taking advantage of lower prices in other countries. Two strategies are employed to that end. The first relies on cross-national price comparisons as a benchmark for regulating domestic prices, a policy that has already been adopted by several countries and is being proposed to others. The second strategy is to permit wholesalers to import drugs purchased abroad at lower prices. Such parallel importing is growing in Europe and threatens to expand significantly, as traditionally low-priced countries join the European Union.

Trade normally increases consumer welfare, and it is on this basis that the European Commission has supported parallel imports. However, the necessary conditions for trade to enhance social welfare are violated in the case of parallel trade in drugs. The lower prices in the exporting country reflect greater regulatory leverage, not superior economic efficiency or lower real costs - indeed, parallel trade adds costs of repackaging, transportation etc. Moreover, because prices are regulated, any savings often accrue to middlemen rather than being passed on to consumers.

The exporting of regulatory leverage from one country to another is particularly harmful when applied to innovative pharmaceuticals because it undermines the basis of paying for R&D. The pharmaceutical industry is more research intensive than any other industry. R&D is roughly 14-17 percent of current sales. But R&D accounts for about 30 percent of total costs, if all costs are discounted to present value at the time of launch.

The cost of bringing a new chemical entity to market is roughly \$350m (in 1993 dollars).

The dilemma posed by these high R&D costs is twofold. R&D is a global joint cost - that is, the cost is the same no matter how many consumers worldwide use the drug. Since R&D costs cannot be rationally allocated as a direct cost of serving a specific country or consumer group, there is a strong incentive for each country to free-ride,

endorsement of parallel importing and cross-national price comparisons to equalize drug prices across countries, is that prices should be uniform. In fact, economic theory implies that charging different prices to different users is optimal and necessary to achieve the appropriate rate of R&D - the rate that consumers are collectively willing to pay for. Healthcare consumers differ greatly in their ability and willingness to pay for innovative medicines. If all are charged the same high price, then low income countries will be unable to afford innovative medicines, even though they would have been willing to pay the marginal costs of serving them. But if everyone pays the same low price, then R&D investments will target only the most common medical needs where high volumes can offset low prices. In the long run, consumers will be deprived of innovative drugs that they would have been willing to pay for, had differential pricing been permitted. Such differential pricing is commonly permitted in other industries with high joint costs, such as utilities and airlines.

Under any uniform price, global revenues and hence R&D will be lower than with differential pricing. Policies that enforce uniform prices across national borders - either indirectly through parallel trade or directly through comparative price regulation - are therefore bad policy for consumers.

Patricia H. Danzon is Celia M. Professor of Health Care Systems at the Wharton School, University of Pennsylvania, and an adjunct scholar at the American Enterprise Institute in Washington, D.C.



leaving others to pay for the joint R&D costs. This free-rider incentive is exacerbated by the fact that R&D and other significant fixed costs are sunk by the time that price is negotiated. Manufacturers rationally continue to supply existing products as long as price covers the marginal costs of production and distribution. However, in the long run, if prices are inadequate to pay for the joint costs of R&D and other sunk costs, the revenues will not be there to develop new drugs.

R&D is of course not unique to pharmaceuticals. Patent protection is the normal mechanism whereby innovators recoup their R&D investments. However for pharmaceuticals, the value of patent protection is constrained by price regulation in many countries, as governments attempt to control public health budgets. As monopoly purchasers of drugs, governments face a strong temptation to force prices down to marginal cost. But if every country pays prices only sufficient to cover their marginal costs - either through direct regulation or by "importing" low prices through parallel imports and cross-country price comparisons - then no one pays for the common costs of R&D. At the limit, if everyone pays only the short run marginal cost, the shortfall could be as high as 50-70 percent of total cost.

A second fallacy underlying policymakers'



LETTERS TO THE EDITOR

Number One Southwark Bridge, London SE1 9HL

We are keen to encourage letters from readers around the world. Letters may be faxed to +44 171-873 5938 (please set fax to "line"), e-mail: letters.editor@ft.com. Translation may be available for letters written in the main international languages.

Alarmist view of US role in telecom negotiations

From Mr Harry L. Freeman.

Sir, Your leader "World trade at risk" (May 7) is unnecessarily alarmist and inaccurately depicts the US role in the very recent telecom negotiations in the World Trade Organisation.

You are right to argue for a strong WTO, but had the US gone along with the telecom offers on the table at the close of negotiations, it would have produced a bad result for all, and a bad agreement hurts the WTO. The US tabled early on a generous MFN (most favoured nation) offer and stated clearly its conditions which were ultimately not met. It found

the aggregate of offers materially wanting, and led the group for another go in 1997, still within the January 1998 deadline. A bad deal would have left telecom part open and part closed in 50-plus countries with no incentive left to improve regimes.

The EU played its all-too-frequent game of tabling an early, patently inadequate offer, scheduling ministerial meetings within hours of the closing minutes, and then claiming it had a good deal to offer on the final day, but was never seen.

It was not by chance that telecom, financial services, and

maritime were left over from the Uruguay Round. They are among the most difficult subjects, and all are governed by large, domestically-oriented ministries. The new timetable provides more convergence of financial services and telecom services, all to a better negotiating environment.

I take issue with your leader it its implication that the WTO's future is at stake. A lowest common denominator deal in financial and basic telecom services would have been detrimental to the WTO. Good deals build integrity.

As for the important questions before the WTO at

the Singapore ministerial and beyond, that is serious stuff, not appropriately linked to the telecom deal. Characterising the US position (or, for that matter, any country's position) seven months early is unhelpful. The principal lesson from telecom is that the US means what it says, is not playing games, and wants something in exchange for binding a completely open market on an MFN basis.

Harry L. Freeman, The Freeman Company, 4708 Dorset Avenue, Chevy Chase, Maryland 20815, US

Only right to complain

From Mr Neville Nagler.

Sir, How many Jews does it take to make a lobby? Surely Philip Crowe's article "How the BBC gagged a turbulent priest" (April 27/28) is not suggesting that the UK media should be encouraged to deny people the right to express an opinion on an item they believe to be biased and inaccurate.

The Board of Deputies considered it only right to complain to the BBC following his broadcast on "Thought for the day" (May 1994) after we received a number of calls from incensed listeners, both Jewish and non-Jewish. They certainly did not share Mr Crowe's description of his broadcast as "measured and balanced".

Two years after Mr Crowe's controversial broadcast, it is no longer helpful to see the Middle East in terms of Israelis versus Palestinians.

Since the recent peace accords there are two distinct camps, one in favour of compromise and peace and one which wishes to destroy both the peace process and Israel.

Neville Nagler, chief executive, The Board of Deputies of British Jews, Commonwealth House, 1-19 New Oxford Street, London WC1A 1NF, UK

Survival plan for tiger economies' symbol?

From Miss Clotilde Luce.

Sir, What distressing absurdity is at work as Asian "tiger" economies thrive while their splendid striped symbol is being poached to extinction. Tiger economies emerge in spectacular fashion, and the magnificent animal that took through the forest of evolution to emerge, disappears into potions and soups. Chinese and Japanese consumers believe tiger bone is a panacea, but it obviously does not cure short-sightedness.

I have a modest proposal to make for those of us holding investments in Asian tiger economies, who think this quadruped pinnacle of

muscular whiskery design should survive beyond virtual reality.

The big mutual funds (Eaton Vance, Scudder, GAM, Credit Lyonnais, etc) that we baby-boomers prop up should offer each investor the option to make direct contributions through the fund to one of these save the tiger projects. "Our Asian tiger fund funds the Asian tiger" could be an appealing PR pitch for millions of us, and perhaps impress upon tiger governments the urgency to preserve the species.

Perhaps "tiger fund" money could support research towards a synthetic of whatever

molecule is so beneficial in tiger bone. My Chinese friends dutifully pay respect to their ancestors. Is there no "do-it" to descendants? Personally would begrudge an orange or two on the altar to ancestors who blithely sprinkled tiger shavings on their won tons. In 35 years I hope to turn the pages of the FT and see that my Asian tiger investments are solid, and not read the necrology of the pious animal chosen as mascot and symbol.

Clotilde Luce, 252 Blvd St Germain, Paris 75007, France

UK government pandering to prejudice

From Mr Ralph Wadgwood.

Sir, May 8 and 9 were an interesting couple of days for gay rights around the world. On May 8, an overwhelming majority of South Africa's constitutional assembly approved their new constitution. The "equality clause" of this constitution's bill of rights guarantees protection against discrimination both by government and by the private sector on the basis of a wide range of characteristics, including race, sex, religion, age, disability, and sexual orientation.

On May 9, the Canadian House of Commons

overwhelmingly passed legislation banning discrimination on the basis of sexual orientation in hiring or promoting people in the federal civil service and in various regulated businesses like banks, airlines, and broadcasting.

On the same day, the British House of Commons, by a hefty majority, defeated a motion to lift the ban on homosexuals serving in the British armed forces.

According to the British government, the rank and file of the British armed forces find the prospect of living at close

quarters with homosexuals so disturbing that allowing homosexuals in the forces would inevitably undermine military effectiveness.

It is interesting to note which countries' legislatures believe in protecting their citizens against prejudice and intolerance, and which of them believe in pandering to it.

Ralph Wadgwood, assistant professor of philosophy, Massachusetts Institute of Technology, Cambridge, Mass, US

COMMENT & ANALYSIS

FINANCIAL TIMES

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Tuesday May 14 1996

An Indian conundrum

The remarkable process of voting in the world's largest democracy is over, and the painful period of haggling over a new government has only just begun. India's voters have yet again disproved the sceptics who never believed that democracy would survive there for 15, let alone almost 50 years of independence, and through 11 largely free and fair multi-party elections. But the latest exercise has produced an electoral conundrum which is likely to prove extraordinarily difficult to resolve, by denying any one party, or combination of relatively like-minded parties, a clear majority.

The election represents a sea-change in Indian politics. It is difficult to see the weary Congress party, which has ruled the country for all but four years in the last 49, returning in strength as a unifying force at the centre of national politics. The clearest message of the voters was their rejection of their traditional rulers, whose support slumped to barely 30 per cent. As a result, the country has entered an era of weak coalition politics at the national level with increasing power devolving in practice to the states.

This need not of itself be worrying to the business and international communities. At the state level there is much more support for foreign direct investment, and for the economic deregulation that facilitates it, than there has been traditionally at national level. But a weak coalition government in Delhi might well retreat from the economic reforms launched over the past four years by Mr Manmohan Singh, the finance minister, and be tempted to relax control over the fiscal deficit in order to pacify the demands of all its partners. That would be much more serious.

and it would be most likely to press through reform of the country's inefficient public sector.

On the other hand, the BJP represents a radical departure from the secular tradition of India's democracy, and it contains extremist elements which could too easily inflame inter-communal strife with the Moslem community. It is likely to be more hostile towards Pakistan, even to the extent of developing a nuclear option. That is an ominous threat. The BJP may be hard pressed to put together a majority in parliament with mistrusting secular partners.

The most likely outcome of the present negotiations would appear to be a fractious left-wing coalition, led by the National Front-Left Front alliance, and enjoying the tacit support of the Congress party. But they remain divided among themselves, and their policies are unclear.

Budget deficit

Most members of the NF-LF represent the poor and dispossessed in Indian society. Although its members have proved pragmatic in power in the states - such as West Bengal - such a coalition would severely test the assumption that the current economic reforms enjoy a broad national consensus. It would rapidly come under pressure to increase public spending and transfers to the states and to the rural poor. This would make it extremely difficult to get to grips with India's large budget deficit, probably the most pressing of its economic problems. The Congress party failed to meet its targets in this respect. The chances of a coalition doing any better are small, but it must try because the level of government borrowing is unsustainable.

It is clear that no likely outcome is ideal in the struggle to govern a country as complex as India. The most stable solution might be a BJP-led coalition in which the party was severely constrained by secular partners. But few expect any solution to be long-lasting. India is going through a period of transition towards a more federal, less centralised structure. It is a painful process, but ultimately a healthy one.

Foreign investment

The business community is inclined to favour the free-market policies of the Hindu nationalist Bharatiya Janata Party (BJP), in spite of its hostility to foreign investment in the consumer goods sector (but not for high technology and infrastructure). It has emerged as the largest single party, it has the clearest policies and most disciplined leadership.

Turning up the heat on gas

It was inevitable that British Gas would clash with its regulator Ofgas over the latest proposals for controls on gas prices. It is almost inevitable that the row will now go to the Monopolies and Mergers Commission. Most of Ofgas's reasoning is sensible; whether the MMC is involved or not, price caps on the lines proposed seem justified. But British Gas's protests are warranted in one respect: the power of a single individual to determine an entire industry's fortunes provokes widespread unease. It is a reminder that a review of the utility regulators' role is needed.

The curbs which Ofgas wants to impose on Transco, British Gas's monopoly pipeline business, would cut domestic prices by an annual 10 per cent, or about £30. That is a tough stance; those who like to say that utility shareholders are far too well should note that British Gas shares have underperformed the FT-SE All-Share Index by 36 per cent since the 1986 flotation.

Ofgas's position is justified. It is right to recommend a higher ratio of debt to equity than that suggested by British Gas. It is sensible, too, to arrive at a real, pre-tax cost of capital of between 6.5 per cent and 7 per cent, lower than British Gas wanted. In doing so, it has thoughtfully weighed up the principles used in other utilities.

But there is one central point at which its reasoning looks muddled: the definition of the asset values on which it calculates the overall return. Ofgas says that, in principle, it would like to use the stock-market value at privatisation, adding on investment since that date, the method used in water regulation. But it rejects this in favour of the market value in 1991, as suggested by the MMC in its 1993 review. This basis is more generous to British Gas, but Ofgas says it is necessary because "market conditions have changed appreciably" since privatisation.

Valuation basis

This is very odd. True, any basis for selecting an asset value is arbitrary and problematic. The historic cost of the assets may bear no relation to the earnings they can generate, while using market

values is somewhat circular: the stock market values the business by estimating the earnings it thinks the regulator will permit. But a more coherent explanation would still be welcome.

Nonetheless, Ofgas's method has the virtue of rejecting the very high values which British Gas had put on its assets. In the circumstances, the proposals overall have merit. But the exercise raises wider questions about the powers of all regulators.

Independent regulation

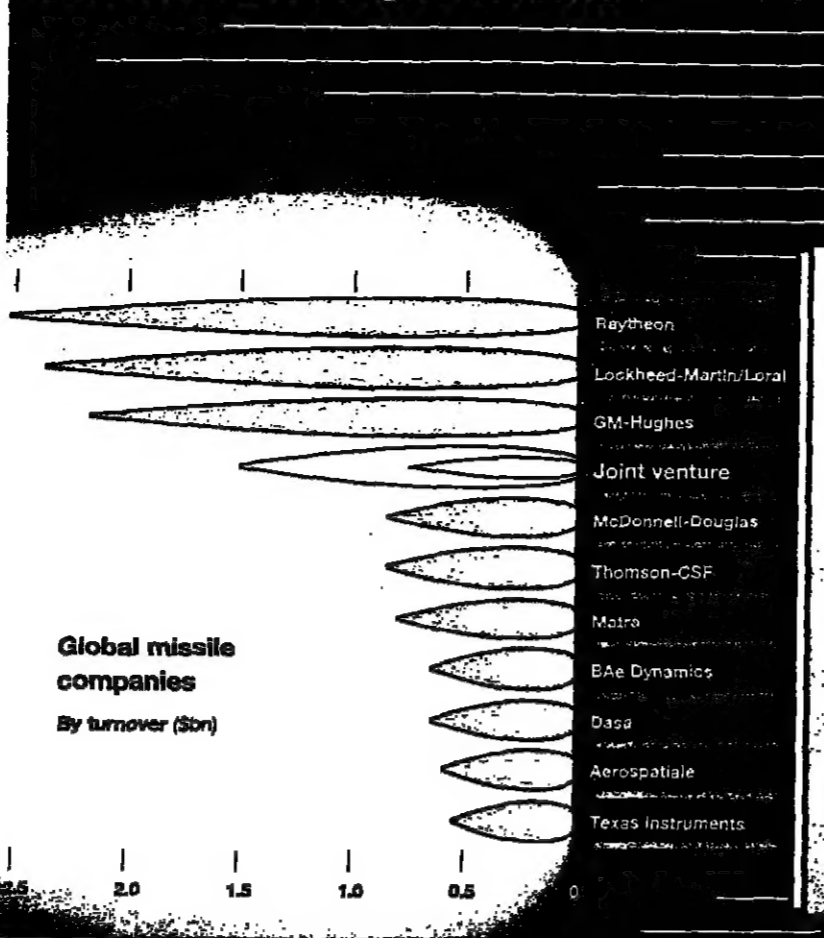
First, the value of having regulators who are robustly independent of the government is clearer than ever. Transco says the proposals threaten the jobs of half its 20,000 employees. That may perhaps be true, but such threats emphasise why pricing reviews are controversial, and show why they should be kept out of politicians' hands. Ministers can easily ignore the fact that cuts in gas prices will help many businesses throughout the UK and eventually yield more jobs.

However, the power of the regulator displayed in this review leaves an unpleasant aftertaste, as do many decisions by other regulators. Review by the MMC is an important check on that individual's power, but regulatory decisions are still likely to vary between industries and over time. That unpredictability, together with the arbitrariness of some reasoning, gives regulators a hard job of establishing legitimacy in the eyes of the public and business.

The answer does not lie in ditching the present regulatory framework. In most utilities, it is well on its way to delivering dramatic reductions in price, which will help its reputation. However, employing regulatory panels for each utility, rather than a single individual, would help reduce the pressure on that person. Such panels should work to common principles on issues such as return on capital, to reduce inconsistency and anomalies between industries.

Regulation is delivering sizeable benefits to utility consumers. But its dependence on a few individuals prevents it being popular, and may in the end jeopardise those gains. Those shortcomings now need urgent correction.

BAe-Matra: ready to launch



The complementary missile ranges

Mission	Main programmes	Matra Defence		BAe Dynamics	
		In production	Development	In production	Development
Air to air	Short range	Magic 2	Mica	Sky Flash	Asram
	Medium range	Super 530 D			FMram
	Long range				
Air to ground	Short range	BGL			
	Stand off	Armlet	Apache	Alarm	Storm Shadow
	Anti-radiation				Typhoon
Anti-ship	Light			Sea Skua	
	Heavy	Otomat		Sea Eagle	
Surface to air	Anti-submarine		Miles		
	V-Shorad	Mistral		Seawolf	Paama
Anti-armor	Direct fire			Rapier 2000	
	Indirect fire				Trigat (Mortar)
Drone			Bravel		
			DDM		
Countermeasures		Spiral	Corail		
			Spectra		

Source: British Aerospace

An elusive moving target

Consolidation in the European defence industry is still some way off, in spite of yesterday's Anglo-French missile merger, says Bernard Gray

Issuing threats is a delicate art, as those involved in negotiating the merger of the missile businesses of British Aerospace and Matra, the defence arm of the French conglomerate Lagardere, have been discovering. Apply too little pressure and the target is not intimidated; too much and it starts to fight back.

The threat in this case is the refusal of the French government to sanction the union of Matra and BAe unless the UK agrees to award the new joint company a £650m cruise missile contract.

In response the UK Ministry of Defence, more used to threatening others than being threatened itself, reacted badly and chose to fight back against this French suggestion. It rejected out of hand the idea of abandoning its competition to select the weapon and said it would award the contract on merit alone.

The deadlock over the joint venture seemed finally to have been broken yesterday with the announcement that the two companies have agreed commercial terms to merge their missile businesses, with no mention made of cruise missiles. BAe and Matra have also agreed to work as a team on a bid to buy part of all of Thomson, the defence and consumer electronics company from the French government. The integration of the European defence industry finally appears to be gathering pace.

Appearance is, however, nearer than reality. In practice, consummating the BAe-Matra missile joint venture remains dependent on approval from the French and British governments. It was unclear yesterday whether French approval for the merger would be forthcoming if Britain decided to place its cruise missile contract with another manufacturer.

The announcement that the two companies would co-operate over Thomson was also vaguely worded, and less than a full bid for Thomson. Early indications suggested that while the Lagardere Group, Matra's parent, would try to assemble a consortium to buy the whole of Thomson, it was still some way from achieving that aim. BAe, by contrast, seems mainly to be interested in picking off some of the more attractive parts of Thomson's defence business.

And despite yesterday's announcements, the intentions of the French government for its defence industry remain shrouded in mystery. In public it argues fervently for rationalisation across Europe, but its actions seem more concerned with preserving France's defence status than producing effective consolidation.

While the rationalisation of the European defence industry remains elusive, there are at least hints of a possible way forward in yesterday's announcements.

Britain is due to make its decision on which cruise missile to buy in July. Competition has been fierce, with two strong US contenders offered by the defence companies McDonnell Douglas and Hughes, and two strong European bids, one from BAe-Matra and another from Daimler-Benz Aerospace, the German group.

The BAe-Matra missile received a favourable technical write-up from the Ministry of Defence, but is expensive compared with its US competitors which use "off the shelf" technology developed for existing US weapons. The team has also suffered from the unwise French threats last year.

Nevertheless, there is a strong feeling within the defence ministry that if the BAe-Matra team can produce a proposition which is roughly competitive on specification and cost, it is likely to win the contract. Earlier this year, internal ministry documents backed the consolidation of the defence industry in Europe.

Ministers are also aware that the UK needs to demonstrate its commitment to the European industry after several recent high-profile procurement decisions to buy American. If the joint venture goes ahead, it would create the largest European missile group measured by turnover, not far behind the three US giants, Raytheon, Lockheed Martin-Loral and Hughes. The two companies have complementary product ranges, with BAe currently developing a short-range and Matra a medium-range air-to-air missile, for example. There are similar matches in other missile categories.

The complementary nature of the two companies' air-to-air missiles operations could help Matra-BAe form a nucleus around which the rest of the European missile industry could coalesce.

Matra's products are standard issue on French fighters while BAe's are fitted to British combat aircraft such as Tornado. Future weapons will have to be compatible with either aircraft type if they are to sell well, and other European manufacturers may regard folding their interests into the Matra-BAe grouping as the best way to exploit the opportunities.

This might apply, for example, to the members of the consortium formed to develop a missile as the principal weapon for the new four-axle Eurofighter, and which could be fitted to the French Rafale and the Swedish Gripen. Members of the consortium include General Electric Company from the UK, Daimler-Benz Aerospace, Alenia of Italy and Saab of Sweden as well as Matra and BAe.

The two companies' wider ambitions to get their hands on part or all of Thomson are less well defined. The French government has said it wishes to privatise

Thomson as a whole, with its loss-making consumer electronics and multi-media business still attached to Thomson-CSF, the profitable defence electronics operation.

The government has been negotiating with Alcatel, the electronics and telecoms giant, and the Lagardere publishing and defence group over who might buy Thomson as a whole. Unlike Alcatel, Lagardere lacks the financial muscle to take on Thomson single-handedly, hence the announcement of a consortium to include BAe.

Nevertheless, it is not clear that the Lagardere grouping can muster the muscle for a full bid. And even if the group can gather the resources, early indications seem to suggest that the French government favours Alcatel as a buyer.

Canny observers, such as GEC which has business links to both groups, appear to be staying interested but strictly neutral until the government decides in principle to which team it wishes to sell Thomson. Only then will serious negotiations begin over the future shape of the French defence electronics industry.

Despite the protestations of the French government, Thomson's civil electronics businesses seem likely to find their way into another civil company. France could then attempt to mimic the defence consolidation in the US and bring together Thomson's defence electronics business with the fighter operations of Dassault, the French fighter aircraft company. The missiles, helicopters and space business could be brought together with those of Aerospatiale, under the aegis of Alcatel. It would then have created a smaller national version of the huge Lockheed Martin-Loral operation in the US.

Alternatively, France could seek international partners for the businesses, with a joint venture pooling all of GEC-Marconi's defence

operations with those of Thomson-CSF - a natural fit. Perhaps, less probably, it could decide to break up Thomson-CSF, selling the missile operations to the Matra-BAe joint venture, for example.

Since none of the companies vying for position knows what the outcome will be, each is attempting to keep its options open by expressing an interest in every possible opportunity. Most European industrialists are keenly aware that it was those US companies which struck deals to buy other defence companies early which had the upper hand when it came to further consolidation. None wants to be left behind in Europe.

Yet those international companies keen to move in on French companies should look carefully at the announcements on the future of the industry made by President Chirac in March. Negotiations between GEC and Thomson about a defence joint venture were well advanced when the government decided to privatise Thomson as a whole instead. The decision to merge military aircraft maker Dassault with Airbus-maker Aerospatiale also seemed to owe more to a French love of scale, rather than the colder logic of eliminating duplicated capacity in the UK, France and Germany.

In those few joint ventures so far negotiated with French companies, France has shown a remarkable reluctance to strike a deal unless it feels it has the upper hand. In the GEC-Matra space business and GEC-Thomson sonar operations, for example, the French have technical, if not absolute, control.

That desire may lead France to construct a national champion while publicly espousing European integration. If it does so, European rationalisation will be delayed, more difficult and more expensive than it need be. It will also almost certainly be too late.

OBSERVER

Let Rome in Tiber melt

Many horrified Romans are already making plans to vacate their city during the year 2000, when an estimated 40m visitors are expected to deck the town in wreaths of piety, celebrating the founding of Christianity. Those that stay put might regret it, if the Polish-British architect Cezary Bednarski, currently holder of a scholarship at the British School in Rome, gets his way.

Bednarski has a thing about bridges, having created an award-winning design for a pedestrian walkway over the river Thames in London. He is also now involved in a project to build an aluminium sculpture bridge for Liverpool's Albert Dock. He recently explained to an audience at Rome University's architecture faculty how his concept of "inhabited bridges" (similar to Florence's Ponte Vecchio) could come in useful for the festivities in 2000.

His notion is the building of 30 new temporary bridges across the Tiber, from Monte Testaccio in the south of Rome to the Olympic stadium in the north. The bridges would ease pressure on accommodation by each offering 100 high-tech modular rooms, with spectacular views of the city. The bridges would all be painted different colours (he suggests

pinks, blues and yellows) and would be separately leased.

Presumably when they are dismantled they could go on roving exhibition around the world. Or just be smashed up and melted down, who knows?

Capital idea

Someone, at least, thinks Frankfurt is bursting with young expatriates who lead a "terrifically active" life after working hours.

His name is Chris Hamley, and he's launching *Rhein-Main News*, a weekly magazine designed to relay local news, events and gossip to English-speaking readers holed-up in Germany's financial capital.

"We are going to provoke but not offend," says Hamley, who intends the mag to be livelier than those in Luxembourg and Brussels, on which it is broadly based.

Hamley reckons there are 50,000 people living in the Rhein-Main area who use English as their language of "first choice". Aside from the Brits and the Americans, there are apparently significant numbers of Irish, Scandinavians, Indians, Pakistanis and Sri Lankans - ready, or not, to rock.

A former advertising executive with Saatchi & Saatchi in Germany, Hamley hopes *Rhein-Main News* will appeal to Germans, too, especially those who want to improve their English or "don't have time for thick and

stodgy German newspapers".

The cover story of the first issue - departing alarmingly from the otherwise upbeat advertising script - shows a young man gazing wistfully at the Rhine, with the headline: "Desperately seeking someone. The truth about Frankfurt's singles".

Gowrie's gifts

A change of tack for Britain's Lord Gowrie, who had been squirrelling away the non-executive directorships since he moved two years ago from the chairmanship of Sotheby's Europe to his unpaid post as chairman of the UK's Arts Council.

Yesterday, he cashed in his chips at Ledbrooke and left the board, to which he has belonged since July 1988. He loved the company, he assured shareholders at the annual meeting in the glittering ballroom of the London Hilton, but was acutely aware that the National Lottery had proved more attractive to many punters than Ledbrooke's bookies and casinos. The Arts Council, of course, mops up its share of lottery lolly.

It was not so much a clash of interests as a clash of perception, he said. The lottery, he was convinced, would ultimately extend the market in "flattering". Meanwhile, Gowrie can quit worrying about the Ledbrooke share price - which has underperformed the All-Share index by an

insignificant 33.5 per cent since the summer of 1988.

Off a duck's back

In South Africa tonight, Pello Jordan may be cracking open a bottle or two. He may even drink a toast to F.W. de Klerk, for making some space in Mandela's cabinet. At the end of March the sharp-minded Jordan was dumped from his key portfolio of post and telecommunications, in a move that some insiders at the time regarded as a slapped wrist for having dared to criticise - albeit *sotto voce* - the great man and his deputy, Thabo Mbeki.

But clearly Jordan has his supporters. For yesterday, in the wake of the Natal defection, he popped up again - as minister of the environment. So plenty of chance to continue pouring cold water over the festivities...

Ballot-box bonuses

As India's main parties scramble to form a coalition with independents, the gossip in New Delhi is that the purchase price of a "floating MP" prepared to "help" a party to form government amounts to the equivalent of some £1m. It does not stop there. The word is that there are some meaty bonuses for those floaters bringing others along with them. Roll out the (pork) barrel.

Financial Times

100 years ago

The Sicilian sulphur industry
One of the chief questions now engaging the attention of the Cabinet is that of the amelioration of the sulphur industry of Sicily, which is in a very depressed condition owing to the competition of pyrites for the production of sulphuric acid, and the fact of the supply now largely exceeding the demand, not to mention the threatening rivalry of Japanese sulphur. The price has fallen from 140 lire to 60 lire a ton. It is now proposed to abolish the export duty of 30 per cent, which formerly yielded an annual revenue of 3,400,000 lire.

50 years ago

Mexican Railway Co. sold
New York, 18th May: The British-owned Mexican Railway Company which operates between Mexico City and Vera Cruz has been sold to National Railways of Mexico according to a dispatch from Mexico City. Although the terms have not been announced, it is understood that a cash payment by Mexico and delivery by the British management will take place this week. Mexico is to pay the British an estimated amount of 48,000,000 pesos (approximately £2,450,000 at current rates), which is said to represent about one-fourth of what the construction of the line cost.

